

**Summer 2010**

## **Yemen Quarterly Economic Review**

*Yemen Quarterly Economic Review is a quarterly report produced by the World Bank Country Office in Sana'a. Major economic and social developments are reviewed. It also provides information on ongoing World Bank operations in Yemen and some key indicators.*

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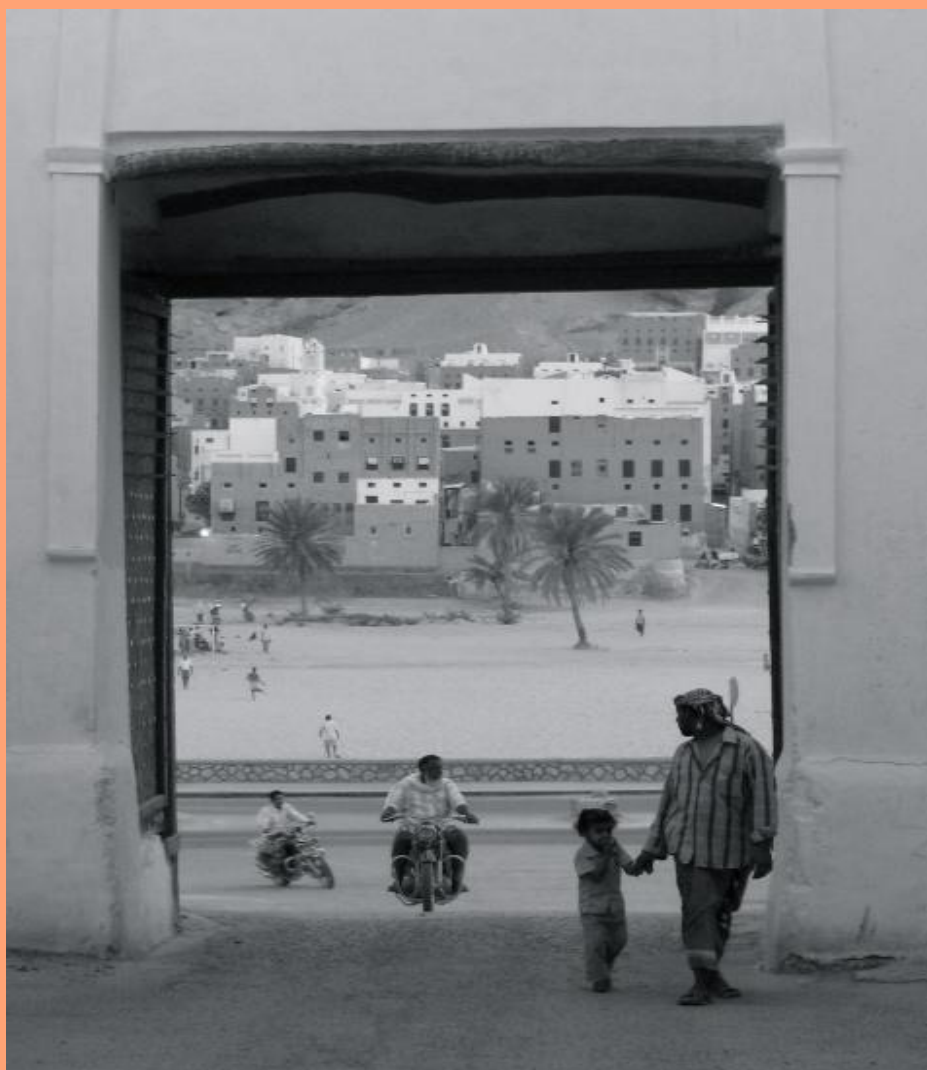
*New Laws, Decrees,*

*and Events;*

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### **SUMMARY**

While growth will be higher in 2010, the overall economic prospects for Yemen remain uncertain. Overall growth for 2010 is forecasted to double to about 7.8% of GDP, largely reflecting the coming on stream of the new Liquefied Natural Gas (LNG) plant. Yemen's trade balance will benefit from the favorable market conditions as oil exports are being sold at higher price than what Ministry of Finance had budgeted. Growth in the non-oil sector however will remain relatively flat at about 4.4 %. The 2010 fiscal budget assumed a deficit of 7.5% of GDP with the IMF concluded and approved program late July.

The 3 years support program by the IMF, aims for a lower fiscal deficit of about 5.4 % of GDP in 2010, and also dampened inflationary pressures.

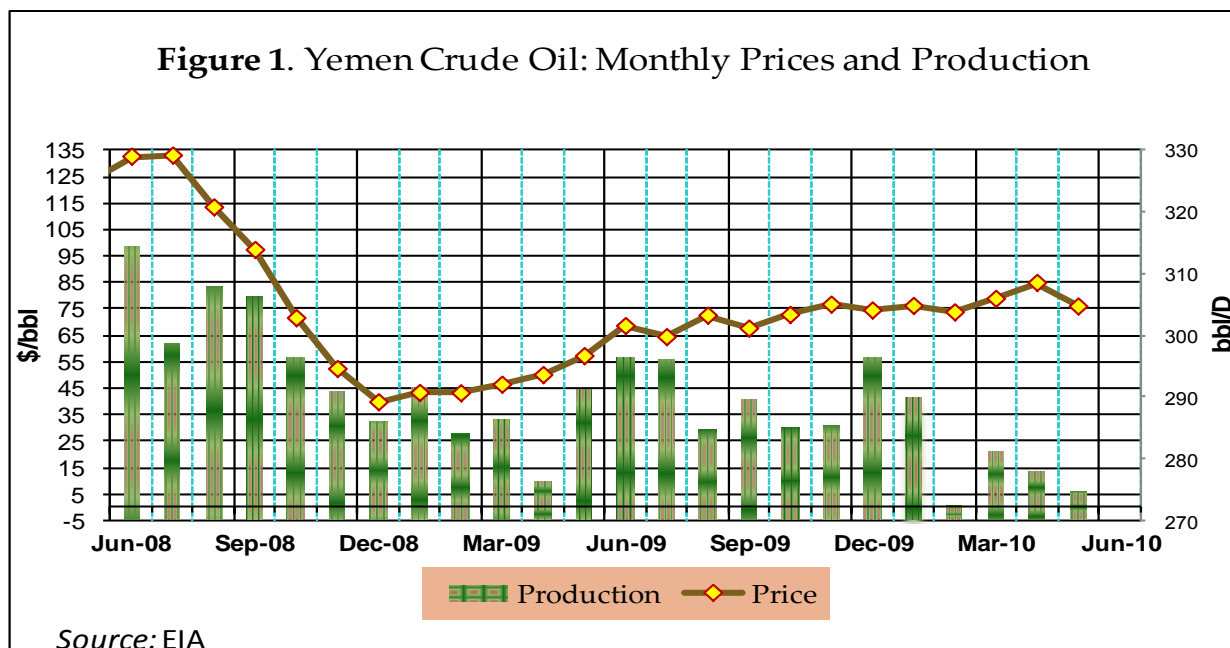
**The World Bank Group.  
Sana'a Office**



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## I. MACROECONOMIC DEVELOPMENTS

*The first half of 2010 witnesses a continuing rise of the international Crude Oil prices.* During the first half of 2010, the prices of crude oil averaged about \$77 for the barrel compared to \$52 in the same period in 2009, which represents a substantial increase compared with same period last year. However, crude oil production continued to decline by around 4 %, reaching an average of 274.9 thousands bbls per day in the first quarter of 2010 against 289.4 thousands bbls per day in the same period of 2009.



*Substantial hydrocarbon economic growth is expected in 2010.* Growth in the hydrocarbon sector is projected at about 51 % in 2010 compared with only 1.6 % in 2009. This sizable increase is due to the introduction of the LNG sector in Yemen<sup>1</sup>. The non-hydrocarbon sector is expected to grow by 4.4 % in 2010, projecting a slight improvement in employment given that it is the main source of job creation. Latest projections for overall real GDP growth in 2010 indicate 8 %, up from 3.9% in 2009. Despite this jump in growth, the fiscal deficit was forecasted at 7.8 % of GDP at the beginning of the year, but is now projected to reach 5.4 % of GDP, after the agreement in a program with the IMF. However, the deficit could end up higher, if the international oil prices would decline.

<sup>1</sup> It should be mentioned that the current GDP estimates for Yemen have undergone major revisions which include rebasing from 1990 to 2008, changing the estimation methodology for the contribution of the informal non-oil, and revising the GDP deflators.

**Table 1.** Yemen Main Economic Indicators

	2008	2009 <sup>1</sup>	2010 <sup>2</sup>
<b>Real GDP growth (in %):</b>	3.6	3.9	8
1- <i>Growth of hydrocarbon sector</i>	-8.1	1.6	51
2- <i>Growth of non-hydrocarbon sector</i>	4.8	4.1	4.4
<b>Current account balance (in % of GDP)</b>	-4.6	-10.7	-4.9
<b>Fiscal balance (in % of GDP)<sup>3</sup></b>	-3.2	-10.2	-5.4
<b>Inflation (in %)</b>	19	3.7	9.8

<sup>1</sup> Preliminary.

<sup>2</sup> Projected.

<sup>3</sup> the actual fiscal balance in 2010 is expected at 5.4% of GDP as a result of the program negotiations with the IMF.

Source : GoY and Staff calculations.

*Yemen LNG (YLNG) inaugurated the second production train in April 2010, increasing annual LNG production capacity to 6.7 mmtpa from 5.7 mmtpa.* The first production train was launched in October 2009, delivering 89 % of its capacity. The second train currently runs at 91 % of its production capacity. The plant is scheduled to meet its targeted annual production capacity of 6.7 mmtpa in 2011. Recently, concerns over the sales agreement to the Korean market were voiced by the Parliament and by the President, which led the government to a review of the sales agreement with KOGAS, in order review options for negotiating a better sales price in line with other regional producers<sup>2</sup>. In June 2010, the Ministry of Oil and Minerals announced reaching an agreement with KOGAS over the review. The review confirmed YLNG's contractual commitment with KOGAS, though promised also to sell available surplus quantities at higher prices in alternative markets.

**Table 2.** Summary of Fiscal Accounts 2008-10 (in % of GDP)

	2008	2009 <sup>1</sup>	2010 <sup>2</sup>
Total revenue and grants: o/w:	36.7	25	27.2
Hydrocarbon revenue, of which:	27.8	14.6	16.7
1- Crude oil exports	15.9	7.4	7.6
2- LNG exports	0	0	0.5
Tax revenue	6.8	8	6.9
Capital Revenues and Grants	0.3	0.4	1.2
Total expenditure & net lending	41.2	35.2	32.6
Current expenditure, of which:	34.5	28.7	25.7
1- Wages and salaries	10	11	8.9
2- Subsidies	14	8.2	8.7
Capital expenditure	5.9	6.5	6.9
Overall balance	-3.2	-10.2	-5.4

<sup>1</sup> Preliminary.

<sup>2</sup> Projected.

Source : GoY and Staff calculations.

<sup>2</sup> Yemen's LNG export price is limited to the Henry-Hub index, generally used to price gas in the Asian region. The gas sales contracts measured in the Henry-Hub index are traded on the NYMEX. The index focuses on gas delivered in Louisiana (the hub). Prices differs across the major hubs, depending on the supply and demand for the natural gas at that particular point.

### Box 1: Qatar Liquefied Gas

Qatar's proven natural gas reserves stood at approximately 890 trillion cubic feet (Tcf) as of January 1, 2009. Qatar holds almost 15 % of total world natural gas reserves and is the third-largest producer in the world behind Russia and Iran. In 2008, Qatar produced approximately 2.7 Tcf of natural gas, more than five times of what was produced in 1995. The increase in production aims to meet the growing natural gas demands of domestic industry (Qatar's LNG consumption in 2008 reached around 715 billion cubic feet), LNG export commitments, and several large-scale gas-to-liquids (GTL) projects. Currently, Qatar has two major LNG operations, RasGas and Qatargas, with 11 production trains and a total LNG liquefaction capacity of approximately 2.7 Tcf/y or 53 mmtpa (Yemen's YLNG annual production capacity as of 2011 is around 0.34 Tcf or 6.7 mmtpa). Large production capacity generally helps the country's negotiations for better selling prices<sup>3</sup>.

Source: EIA 2010.

*Given the initiation of LNG exports and the Government's fiscal adjustment program, the current account deficit is likely to improve from about 10.7 % of GDP in 2009 to an estimated 4.9 % in 2010.* The implementation of the IMF support program along with the Government's fiscal adjustment measures such as the gradual fuel subsidy reduction, the benefits of higher than budgeted international crude oil prices, and the initiation of LNG exports, all these factors are likely to ease the pressure on the balance of payments in 2010 compared to 2009, in spite of challenges such as the continued strong demand for imports, the decline of remittances, and the slowing down in FDI.

Table 3. Current Account Balance (In billion \$ US)

	2006	2007	2008	2009	2010 <sup>2</sup>
Exports of goods	7.3	7.1	9	5.9	7.9
Of which: petroleum	6.7	5.9	7.9	4.5	6.5
Imports of goods	-5.9	7.5	-9.3	-8.1	-8.5
Services balance	-1.3	-1.1	-1.1	-0.8	-0.8
Current account balance	0.2	-1.5	-1.3	-2.7	-1.5
Current account (as % of GDP)	1.1	-7	-4.6	-10.7	-4.9

<sup>1</sup> Preliminary.

<sup>2</sup> Projections.

Source: GoY and Staff calculations.

*The nominal exchange rate of the Yemeni Riyals depreciated from the annual average US\$/YR 202.85 in 2009 to US\$/YR240 in early August-2010.* In comparison with the 2009 annual average, this represents about 20 % nominal depreciation. A gradual depreciation of the Yemeni Riyal has started during the second half of 2009 as the government struggled to address the rising inflationary expectations given the rising

<sup>3</sup> Yemen's estimated LNG proven reserves as of 2010 is approximately 16.9 Tcf compared to approximately 890 Tcf of LNG proven reserves of Qatar as of 2009. Yemen's gas reserves represented less than 2% of the Qatar's reserves.

fiscal deficit in 2009. The current monetary policies are geared to support the value of the Riyal, allowing for gradual adjustment. In March 2010, the CBY supported the

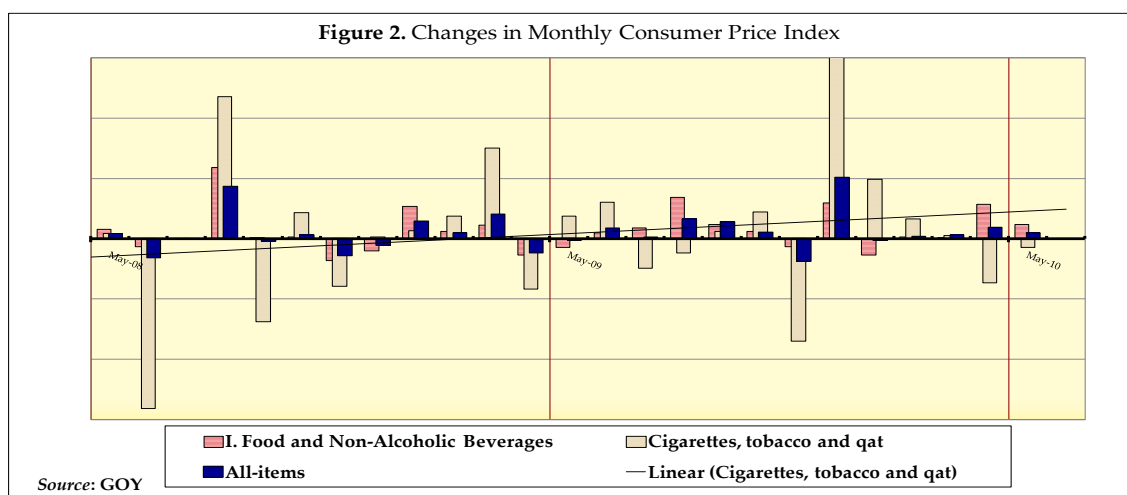
Riyal exchange rate through selling reserves and meeting demand, raised the interest rate benchmark on Riyal deposits to 20 %. This rate is considered high and is likely to have a negative impact on the private sector credit (lending). This policy was satisfactory until late July when the exchange rate moved along a volatile path for a few days.

**Table 4. Yemeni Exchange Rate against the US Dollar**

Period	Period Average (annual)	End -Period	Change over previous End-Period in %	Change over previous period (annual) in %
2006	197.05	198.5	1.75	2.94
2007	198.95	199.54	0.52	0.96
2008	199.78	200.08	0.27	0.42
2009	202.85	207.32	3.62	1.54
10-Jan	209.08	212.26	2.38	3.07
10-Feb	213.91	215.23	1.4	2.31
10-Mar	217.93	222.31	3.29	1.88
10-Apr	224.04	225.32	1.35	2.8
10-May	225.32	225.45	0.06	0.57
10-Jun	225.55	225.85	0.18	0.1

Source: GoY and Staff calculations.

*Inflation in 2010 is expected to slightly edge up.* Current estimates suggest an average inflation rate in 2010 of 9 to 10 %. This rise in Inflation reflects the rising prices of local commodities, the recent energy price increases (fuel subsidy reduction), and impact of the Riyal depreciation (by nominally 25 % since end 2009). It's also worth mentioning that the government has recently revised the Consumer Price Index (CPI), adopting new weights and using December 2008 as a base instead of December 2005<sup>4</sup>.



*Fiscal consolidation is the first step toward allowing more space for the private sector.* Current credit interest rate amounts to more than 20 % and are an obstacle for investment. Reduction of the fiscal deficit and therefore reducing the pressure on the domestic financial market while also diversifying financing options is a prerequisite for improving the conditions for private sector development. Measures over the

<sup>4</sup> The new weights were adopted as of March 2010.

medium term to strengthen financial sector development include: (i) development of Islamic financial instruments (Sukuk), which would also offer a new financing option to the government over classic T-Bills; (ii) an automated credit registry (under way); (iii) enforcing prudential regulations on concentration of credit; (iv) improving the functioning of commercial courts and judicial processes for recovery of bank and other debts; and (v) further encouraging microfinance.

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## II. STRUCTURAL REFORMS AND POLICIES

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*The GoY began to implement the General Sales Tax (GST) legislation as of July 2010.* The implementation of the GST is being complemented by the newly reformed Income Tax law, which reduces the maximum corporate income tax rate to 20 % compared with the current maximum of 35 %. The reformed income tax law was approved by the Parliament in early August 2010. One key difficulty facing the tax reform in Yemen is that Yemenis are not very used to a tax system but rather to the Islamic form of “Zakat”<sup>5</sup>. Nonetheless, by reducing income tax rates, creating GST collection stages (border, wholesale, retail), the government hopes to execute the reform and widen the tax base and enhance tax revenues. In the meantime, the full implementation of the GST legislation still faces critical resistance from the private sector. In early July 2010, the Federation of Chambers of Commerce appealed to the Supreme Judicial Council to thwart the GST implementation.

*The new Investment law was approved by the Parliament on August 1<sup>st</sup>, 2010.* The new legislation aims to eliminate indirect exemptions and introduces international best practices. The investment legislation was introduced in conjunction with two legislations also approved by the Parliament by early August, lower corporate income tax of 20 % to 15 % for investments that create significant job opportunities, amendments to the customs law that aim to improve the investment climate in Yemen as part of the government efforts to diversify revenues for the economy and promote the non-oil sector.

*The subsidies for oil derivatives were reduced during the second quarter of 2010.* Latest price adjustments covered Diesel fuel by about 13 % from 39 YR/L to 44 YR/L, Regular Gasoline by about 8% from 65 YR/L to 70 YR/L, and Kerosene by about 13 % from 39 YR/L to 44 YR/L. LPG gas cylinders however, witnessed the biggest increase by around 33 %, from 750 YR to 1,000 YR per cylinder. However, rising international

Prices for oil products could balance out the subsidy reduction savings realized so far. Despite the recent price adjustment, domestic fuel prices are still about 50 % below international prices. Energy subsidies amounted in 2009 to about 20 % of the overall public expenditures, and around 8 % of GDP.

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<sup>5</sup> Zakat is an Islamic religious form of taxation that aims for effective fair wealth distributions and contribution to the poor. Zakat disbursements coverage include local administrations and SWF for the vulnerable poor categories including orphans and widows.

**Table 5. Domestic Prices of Fuel and Recent Reform Measures**  
(Prices in Yemeni Riyal per Liter (YR/L), unless indicated otherwise)

Item	Price in early 2010	Action taken since Feb. 2010
Diesel for transport and other small consumers	39	In June 2010, price for large industrial consumers (except for Agricultural use) were liberalized (Currently around 144 YR/L). pump prices for small users also increased by 5 YR to 44 YR/L.
LPG	750 per cylinder	Price of LPG cylinder rose to 1,000 YR.
Kerosene	40	price increased to 45 YR/L.
Gasoline - regular	65	Price increased to 70 YR/L in May 2010.
Gasoline- Unleaded	135	Unleaded 90-octane gasoline (imported) was increased to 150 YR/L in July 2010.

Source: GOY.

*Yemen anticipates to conclude the WTO accession process before the end of 2010.* Through WTO membership, the GoY aims to improve trade and investment growth performance and ultimately reduce dependency on the hydrocarbon sector. The GoY held its seventh negotiation meeting with the WTO last January with the eighth meeting being scheduled for the second half of 2010 in which the GoY anticipates to finalize accession negotiations. This optimism is justified following the successful negotiations of April 2010 which concluded with an agreement of the USA. In addition, the Parliament in late July 2010, approved the trade legislation reforms that were required for concluding the WTO accession, and aim to introduce the WTO standards. Furthermore, the GoY is planning an update for the Diagnostic Trade Integrated Strategy (DTIS) of 2003, in parallel with the new Trade Strategy that is currently being developed by the Ministry of Trade. The DTIS update is expected to set out priorities for promoting investment in the government-called “promising sectors” (agriculture, fisheries, tourism, minerals).

*The GoY increases its effort to find ways to improve Water supplies.* In 2010, the government announced plans to construct a Water Desalination project through a PPP arrangement (Public-Private Partnership) that would be located in Al-Makha coast. The project will construct four desalination units in three phases with a total production capacity of 150 thousand cubic meters per day that would primarily meet demand in Taiz governorate through a network of pipelines. According to the National Water and Sanitation Authority (NWSA), the project is expected to receive assistance from Saudi Arabia to construct a network of pipelines (cost of around USD 220 million). Taiz governorate suffers from severe water scarcity as well as being the most populated governorate. While the water desalination can be an option, it is unlikely to resolve the severe water scarcity in Yemen giving the challenges of transportation at a reasonable and affordable cost to the rural and often mountainous and poor areas.

### **Box 2: Water sustainability in Yemen**

Water availability in Yemen is among the lowest in the world with 115 m<sup>3</sup>/capita/year, compared to the already-low MNA average of 1,250 m<sup>3</sup>/capita/year. There are no perennial rivers: water comes from rainfall, springs, seasonal flash floods (spate), and groundwater. Yemen's limited water supply has been rapidly depleting throughout the last 3 decades, due to expansion of irrigated agriculture (which escalated after introducing drilling rigs and energized pumps, encouraged by the diesel subsidy) and due to the rise of demand in urban areas. Use of groundwater to grow the Qat crop has been a particularly significant feature in the highlands. While Qat crop has brought some economic prosperity to rural areas, growing Qat is not sustainable because of intensive water use, and ultimately undermines the agricultural and farmers' opportunities for diversification.

*The current Social Protection programs offer a broad range of assistance to the Poor in Yemen.* While the Social Fund for Development (SFD) and the Public Works Project (PWP) activities provide medium to long-term benefits to the poor and disadvantaged communities through supporting access to social services and economic opportunities, the SWF program is the only national program that is mandated to reach chronically poor households with immediate support through the provision of cash assistance. More recently, the SFD has initiated a labor-intensive public works programs (LIW) to provide cash income to poor households as well as building essential community infrastructure, including soil and water conservation investments. Currently, there are efforts to scale up the LIW with the support of the SFD and the interested developing partners.

### **Box 3: Social Indicators Status**

Social indicators for Yemen continue to rank low. Yemen ranks 140<sup>th</sup> out of 182 countries in the UNDP Human Development Index (2009 update). The report also shows that, average life expectancy is up from 41.6 years in 1970 to 62 in 2006 with women's life expectancy mirroring the overall trend. Although there has been a significant increase in enrollment rates in basic education (up from 3 million in 1996 to 4.1 million in 2004), female literacy rates stood at only 28.5 % in 2002. Food insecurity and malnutrition levels in the country have reached alarming levels. Yemen is among the ten countries in the world with the highest rates of food insecurity, with the country ranked third for the highest malnutrition in the world: 58 % of children under 5 are stunted, and more than 1 in 10 children is acutely malnourished. A recent Comprehensive Food Security Survey (2009) conducted by the World Food Program's (WFP), confirms the deteriorating poverty situation. The situation is further compounded by climate change, increasing influx of refugees from the Horn of Africa, high continuous population growth, and still low literacy especially among female.

*GoY has initiated a marketing campaign to promote and attract oil and gas investments to Yemen.* As of May 2010, the Ministry of Oil and Minerals (MOM) began a new marketing strategy. The new strategy is in accordance with the Cabinet's latest amendment to the international competition decree, to promote new investments in the oil and gas sector using direct invitations and negotiations to all international companies with experience in the field to improve the development of the industry. The ministry has opened some fifty blocks for Gas and Oil exploration licensing. The government hopes that the new strategy would accelerate the expansion of exploration in Yemen in an attempt to offset the annual oil production and revenues decline. In July 2010, MOM announced receiving bidding offers for four new oil blocks. According to the Oil and Minerals Ministry, Yemen has total of around 100 discovered oil blocks, of which only 12 have are productive blocks, 38 blocks being explored, and the remaining oil blocks have now been opened for inviting investments.

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### III. RECENT POLITICAL AND SOCIAL DEVELOPMENTS

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*In July 2010, an agreement between the political parties was signed to initiate a national dialogue.* In February 2009, the Parliament of Yemen ratified a two years term extension changing the date for the parliamentary election from April 2009 to April 2011. The postponement was agreed by all political parties in a step to allow for a national dialogue and achieve consensus over electoral and constitutional reforms. However, the national dialogue was on and off-track and only agreed upon as political parties reached an agreement in the 17<sup>th</sup> of July 2010 to begin the dialogue, and to advance the implementation of the February 2009 agreement that centered on the electoral reform (improving voter registration, transparency, etc) that was also recommended by the 2006 EU Observation Mission.

*AQAP (Al-Qaeda in the Arabian Peninsula, the Saudi and Yemeni wings of Al-Qaeda) has strengthened their operations in 2010.* In June 2010, the group conducted another attack in which eleven people have died, including three civilians. The latest attack targeted a government Intelligence center in Southern Yemen. The group seems to have widened their operations in Yemen focusing on domestic governmental targets that have so far claimed the life of around forty Yemeni officials.

*The power generation sector in Yemen continues to be unreliable in 2010 as security situation escalated in the Mareb governorate.* Since May 2010, insecurity in Mareb has been escalating and attacks reached Mareb gas-power station contributing to electricity blackouts. It is noteworthy that Yemen is the least electrified country in the MENA (Middle East and North Africa) region with less than 1,000 MW of installed electricity capacity in 2009, with around 50 % of the population having access, and rural electrification reaching only about 20 % of households. Mareb Governorate houses one third, around 341 MW of installed electricity.

*Refugees continue to increase, predominantly from Somalia and internally displaced persons from the conflict affected Sa'ada are still high.* The United Nations High

Commissioner for Refugees (UNHCR) estimates that more than 155,000 refugees, 95 % of whom are Somalis, have been granted prima facie refugee status by the Government. Other refugees in the country include Iraqis, Ethiopians and Eritreans, most of them are living in Sana'a and Aden, adding to existing pressures on public services. It is estimated that a comparable amount of refugees lives illegally in Yemen. In addition, the conflict between the GoY and the Al-Houthis rebels that escalated in August 2009 for the 6<sup>th</sup> time to an open war led to the displacement of some 150,000 people before the truce was announced in early 2010.

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## V. OUTLOOK

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*Enhancing political stability requires governance reforms.* Despite the recent truce in Sa'ada and the agreement on the national dialogue, the situation is still very fragile. Peace requires progress in addressing the fundamental causes of conflict and a review of governance structures to enhance accountability and service delivery by the government. In the South, secessionist sentiment continues to rise in face of the slow progress in improving economic conditions and unease about the equity and transparency of government actions. The presence of Al-Qaeda is making the overall security situation more complex. The ability of the government to address resentment has been narrowed with the deteriorating fiscal space since 2008.

*Yemen's economic prospects depend on the hydrocarbon sector for the short-term and on the identification of new sources of economic growth over the medium-term.* Oil production is expected to continue to decline, with the current reserves expected to run out perhaps as early as 2021, in the absence of new oil discoveries and developments. The production and export of liquefied natural gas (LNG) via the Yemen LNG project (YLNG) will offer some cushion, but cannot compensate for the loss of oil revenues. However, even if oil and gas resources are found and developed, this is unlikely to be adequate to address the employment challenge Yemen faces. Regardless of new oil sector development, it is of importance to develop the private sector in Yemen to accommodate for an effective solution to jobs and employment creation in Yemen.

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## V. ECONOMIC AND SECTOR DIALOGUE

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**Education:** The World Bank Education Team led the project to prepare Country Status Report (CSR) for Education in Yemen that was officially disseminated in July 2010. The report sets the stage for the development of a national vision for education in Yemen which is to become a strategy in coordination with all the ministries of education. Development partners including the World Bank are set to continue the partnership agreement with the government for the implementation of Basic Education Development Strategy (BEDS) and National General Education Strategy (NGSES). Furthermore, the Higher Education Quality Improvement Project receives a grant from the World Bank of US\$13 Million, the grant was signed on June 28, 2010 and to be effective on September 1<sup>st</sup>, 2010. This project aims to create the enabling

conditions for the enhancement of the quality of university programs and graduates employability.

**Corporate Governance:** The IFC led project, which started in April, 2009, in Sana'a organized seven interactive workshops in partnership with the Center for International Private Enterprise (CIPE), the Yemeni Businessmen Club (YBC), and the Yemen Federation of Chambers, that provided corporate governance training to 314 board directors and senior executives from various Yemeni SMEs and banks, as well as high-level government representatives. In 2010, a corporate governance "Training of Trainers" program was conducted for 16 potential trainers to create local expertise of Yemeni corporate directors/executive and academics to ensure the sustainability of the corporate governance training initiatives. The IFC Team also provided content input to the Yemeni Code of Corporate Governance, which was already launched in March 2010. The team also developed and launched an audit committee manual for private Yemeni companies (launched in Arabic). The purpose is to help companies and banks implement effective audit committees. A Yemeni task force was formed to review the draft and adapt it to the local laws and regulations. The publication has been printed and widely-distributed and a separate press conference to promote it took place in July 2010.

**Special Economic Zones (SEZ):** IFC is in the process of assisting the Government of Yemen to draft a new SEZ law and implementing regulations. Based on global good practice, the GoY aims for the SEZ law to be private sector-oriented to promote greater private sector involvement in a number of areas. A special law is expected to offer a streamlined regulatory framework for investments, and flexibility to permit an array of investments, including manufacturing, services, tourism, among others. Recently, a high level inter-ministerial committee (IMC) roundtable chaired by the Deputy Prime Minister for Economic Affairs, brought together seven Ministers, private sector leaders, Parliamentarians and other stakeholders to discuss the draft model SEZ law.

**Mining Policy Reform II (ESS):** The objective of the Mining Policy Reform II (ESS) is to help Yemen's Geological Survey and mineral Resources (GSMRB) and other relevant agencies to establish an environmental Social Sustainability Consensus framework (including ESS Impacts and Community Investment Components). The overall goal would be to attract private mining investment in a socially sustainable manner, attractive to both local communities as well as investors. The project is composed of four phases and four components. Two of the four phases and four components have been accomplished and delivered. Follow-up activities are investment promotion and the drafting of a Mining Code. The project key next step is to assist the GoY to mobilize international experts to develop the ESS consensus framework and to assist participating in international promotion conference (MENA Mining Congress, 23 Oct. 2010, Dubai).

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**VI. NEW & NOTEWORTHY LAWS, DECREES, AND  
AGREEMENTS FOR THE PERIOD APRIL 1<sup>ST</sup>-JUNE 30<sup>TH</sup>,  
2010**

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**The Cabinet**

- approved amendment of the National Flag Law after its perusal by the ministerial committee;
- approved a draft republican decree regarding the names and location of Yemeni islands, rocks and ridges proposed by the Minister of Legal Affairs;
- approved draft decree proposed by the Ministry of Transport regarding amendment of the organizational by-laws of the Ministry of Transport;
- approved establishing Hadhramaut satellite TV channel;
- approved draft Republican Decree regarding establishment of the Economic Opportunity Fund with total capital of YR 7.5 billion proposed by the Minister of Planning and International Cooperation;
- approved two draft Republican Decrees regarding setting up Sa'ada and Hadhramaut Valley universities proposed by the Minister of Higher Education and Scientific Research;
- approved draft by-law for the Law 34/2002 regarding Expatriates Affairs; agreements between Yemen and Russia in medical field;
- approved by-law for marketing petroleum products and combating their smuggling proposed by the Minister of Oil and Minerals;
- approved draft Republican Decree regarding forming a national committee for Transportation and Traffic Safety.

**Seminars and Workshops**

- A workshop to debate the draft of the National Disability Strategy 2011-2020 was organized by the Social Fund for Development during April 4-5.
- A workshop on Safe Motherhood organized by the Women's National Committee in cooperation with the National Safe Motherhood Alliance during April 6-7.
- A workshop on the Extractive Industries Transparency Initiative organized by the Ministry of Oil and Minerals in cooperation with the World Bank during April 5-6.
- A training course on Analyzing the State Budget was organized by the Studies and Economic Media Center in cooperation with the Friedrich Ebert Stiftung Foundation during April 22-24.
- A training course for Human Rights Trainers was organized by the All Girls Society in cooperation with the Middle East Partnership Initiative during April 22-24.
- Training on Development of ManageRiyal and Supervisory Skills was organized in Hajja by the Education Office in cooperation with GTZ during April 24 - 26.
- Implementation of the Child Labour Survey 2009 - 2010 was launched by the Central Statistical Organization on May 5.

- A workshop on the Convention on the Elimination of All Forms of Discrimination against Women was organized in Aden by the National Women's Committee in cooperation with UNICEF during May 30-31.
- A workshop on the role of CSO in facing climate change organized by the National Commission for Education, Culture and Science in cooperation with the Islamic Cultural, Education and Scientific Conference Organization during May 24-26.
- The First Consultative Meeting on Public Procurement and Auctions was organized by the Higher Authority for Tender Control in cooperation with the World Bank on May 31.

### **Development Cooperation**

- Two grant agreements were signed between Yemen and the World Bank in Cairo for the cumulative amount of US\$ 55 mln; one under Port Cities Development Project and another one under Integrated Urban Development Project
- Japan granted US\$ 86,600 for the project to Improve Solid Waste Management in Al-Qatun in Hadhramaut and US\$ 86,206 for building nine additional classrooms in Tarim under its scheme "Grant Assistance for Grassroots Human Security Projects".
- The USA allocated US 4.9 mln for supporting humanitarian programs of UNHCR mainly targeting IDPs in 2010.
- French Fund for Social Development granted €199,000 to People with Special Needs Society, Relief Social House and Small Credits Organization in Aden.
- A preliminary agreement was signed between Yemen and Japan under which Japan would provide patrol boats to Yemen coastguards to support Yemeni efforts to fight piracy and terrorism.
- A financing agreement was signed between Yemen and the World Bank for the total amount of US\$ 10 million towards institutional support of the Social Welfare Fund.
- A financing agreement was signed between Yemen and JICA for the amount of US\$ 7.6 million towards support of the General Corporation for Roads and Bridges.
- USAID provided US\$1.9 million to three NGOs for provision of the humanitarian assistance to the internally displaced people and other war-affected population in Sa'ada and Harf Syfian.
- An agreement was signed between Yemen's Government represented by Shibam Holding and IFC for strengthening tourism sector through improving tourism regulations and increasing investment.

### **Economy/ Finance**

- The Board of Directors of Sa'ada Reconstruction Fund approved its plan for 2010 in the amount of YR 16.7 bln.
- The Central Bank of Yemen achieved profit of YR 33 bln in 2009.
- Trade between Yemen and the Arab countries fell by over 48% in 2009 from YR 1.2 trillion in 2008 to YR 642 bln mainly due to decline in demand for products imported by Yemen.

- Total Yemen's foreign debts during first quarter of 2010 reached US\$ 5.8 billion registering an increase of US\$ 140 million compared to the same period last year.
- The Board of Directors of the Social Fund for Development approved its general plan for the fourth phase 2011-2015 with the estimated cost of US\$ 1.1 bln.
- The bilateral trade between Yemen and China reached US\$ 2.4 billion over last two years with Yemen being one of the biggest fish exports to China exporting 6.7 million tons of fish and sea creatures per year.

## VII. WORLD BANK GROUP OPERATIONS IN YEMEN

As of June 30, 2010, The World Bank is financing 28 projects in Yemen, with a total commitment of USD 1147.8 millions, and of which USD 559.4 millions are disbursed. Most of the lending operations are investment projects covering vital sectors like Water, Urban Developments, Education, Agriculture and Rural Development, Transportation, and energy. In addition, to the investment portfolio shown below, the World Bank provides also Technical Assistance (see table 7). Table 7 includes the World Bank's on-going technical assistance operations in its areas of activities, e.g. Energy, Climate Change, Education, transportation, rural development, and others.

**Table 6: Yemen Current WB Portfolio**  
(As of 30 June, 2010)

Project Name	Sector	Begin of the Project	Project Closing Date	Financing (in US\$ million)	Sector Share in % of Total Financing	Total Disbursement (US\$ million)	Disbursement Rate by Project (in %)
Rainfed Agriculture And Livestock	Agriculture & Rural	6-Jul-06	30-Jun-12	20	1.8	9	45
Basic Education Development Program	Education	23-Sep-04	30-Jun-12	65	12.1	52	80
Second Vocational Training		27-Mar-07	31-May-13	15		1	7
Education Development And Girls Access		18-Mar-08	31-Jan-15	20		0	0
Education for All – Fast Track Initiative (EFA-FTI) Catalytic Fund III		30-Sep-09	30-Sep-12	20		8	40
Higher Education Quality Improvement		29-Apr-10	31-Aug-16	13		0	0
Rural Energy Access	Energy	19-May-09	30-Jun-15	25	6.8	1	4
Power Sector		23-May-06	31-Dec-10	50		3	6
Fisheries Resource Management & Institutional Reform Credit (IRDPC)	Environment	15-Dec-05	30-Sep-11	25	2.3	8	32
Yemen Health-Safe Motherhood	Financial & Health	6-Dec-07	30-Jun-10	51	4.6	27	53
Schistosomiasis Control Project		11/6/2008	30-Jun-12	6	2.8	0	0
Civil Service Modernization		17-Dec-09	30-Jun-16	25		0	0
Civil Service Modernization	Public Sector	17-Mar-00	30-Oct-10	44	4.0	29	66
Emergency Social Safety Net Enhancement	Social	27-Apr-10	30-Jun-11	23		2	9
SWF Institutional Support Project		17-Jun-10	31-Mar-17	10	8.5	0	0
Social Fund for Development IV		...	31-Dec-15	60		0	0
Second Rural Access	Transportation	11-Aug-05	30-Nov-13	80	14.1	30	38
Third Public Works		26-Feb-04	30-Jun-11	75		68	91
Port Cities Development 2		25-May-10	25-Jul-15	35		0	0
Taiz Municipal Development & Flood	Urban Development	1-Nov-01	15-May-13	100		70	70
Integrated Urban Development		25-May-10	30-Sep-15	22	26.1	1	5
Urban Water Supply & Sanitation Project		1-Aug-02	31-Dec-10	130		113	87
Groundwater & Soil Conservation Project		26-Feb-04	31-Oct-11	55		44	80
Rural Water Supply & Sanitation	Water	21-Dec-00	31-Dec-10	40	16.8	40	100
Water Sector Support		24-Feb-09	31-Aug-14	90		4	4
<b>Total</b>				<b>1099</b>	<b>100</b>	<b>559</b>	<b>51</b>

Source: WB

**Table 7: Yemen Current WB Group Technical Assistance & Advisory Services Portfolio**  
(As of 1st July, 2010, in thousands US\$, unless mentioned otherwise)

Trust Fund Name	Sector	Effective Date	Closing Date	Net Grant	Sector Share in % of Total Financing	Total Disbursement (US\$ million)	Disbursement Rate by Project (in %)
Assessing Community and Household Resilience to Climate Change in Rainfed Areas of Yemen	Climate Change	15-Oct-08	23-Dec-11	157.0	3.4	39.4	25.1
Yemen and China Knowledge Sharing on Systematic Management of Coastal and Marine Areas in Yemen		1-Apr-09	30-Dec-10	150.0		75.3	50.2
Adaptation to the Impacts of Climate Change on Coastal Communities in the Southern Red Sea and Gulf of Aden		1-Aug-10	31-Jan-13	500.0		0.0	0.0
Institutional Development Fund (IDF) Grant for Monitoring and Evaluation of the Poverty Reduction Strategy Paper (PRSP) and Reform Program	Economic Development	23-Oct-07	23-Oct-10	250.0	2.9	218.8	87.5
Institutional Development Fund Capacity Building on Legal Aspects of WTO Accession		23-Jun-10	6-Apr-13	427.7		0.0	0.0
Yemen Basic Education Development-Bank Executed Portion of the Grant	Education	30-Nov-04	30-Jun-12	343.8	11.1	215.6	62.7
Yemen Education Multi Donor Trust Fund Bank-Executed Trust Fund		1-Dec-06	30-Jun-12	1,083.8		396.8	36.6
Education Program Development Fund		26-Sep-08	31-Aug-11	1,055.0		687.5	65.2
Education for All (EFA) - Fast Track Initiative (FTI) Phase 3 Supervision		26-Oct-09	30-Sep-12	123.8		33.6	27.1
Mining Investment	Energy	12-Sep-07	31-Dec-10	450.0	6.4	340.4	75.7
Support to the Extractive Industries		4-Mar-08	31-Oct-10	350.0		115.0	32.9
Developing the Domestic Gas Market		16-Sep-08	30-Apr-11	500.0		290.7	58.1
Study the Incentives Scheme for Improving vehicle energy Efficiency in Yemen		7-Feb-10	31-Dec-11	200.0		0.0	0.0
Institutional Development Fund for Monitoring and Evaluation of Benefit Streams in Mineral Resources of Operations	Environment	29-Oct-07	29-Oct-10	297.0	9.9	297.0	100.0
Strengthening National System for Disaster Risk Reduction		1-Nov-07	30-Jun-11	947.7		367.6	38.8
Avian Influenza Preparedness and		5-Nov-08	30-Jun-11	1,080.1		107.0	9.9
Yemen Nutrition (project preparation)	Health	15-Dec-09	30-Jun-11	60.0	1.5	23.8	39.6
Integrated Routine Outreach Health Services		1-Apr-10	31-Dec-10	120.0		20.0	16.7
Safe Motherhood & Baby Health Service		14-Jun-10	30-Jun-12	170.5		0.0	0.0
Tax Simplification Project	Private	16-Apr-08	30-Jun-11	1,000.8	53.2	715.4	71.5
Regional Management		1-Jul-08	30-Jun-13	347.6		98.2	28.3
Private Sector Advisory Services Project		1-Jul-08	30-Jun-13	2,700.0		2.7	0.1
Monitoring and Evaluation and		15-Dec-08	15-Dec-11	310.3		157.4	50.7
Private Public Partnership		15-Dec-08	15-Dec-11	1,308.7		526.1	40.2
Access to Finance		15-Dec-08	15-Dec-11	1,172.4		645.2	55.0
Business Enabling Environment		15-Dec-08	15-Dec-11	4,265.8		2,523.3	59.2
Environmental and Social Sustainability		15-Dec-08	15-Dec-11	331.2		0.0	0.0
Corporate Advice		15-Dec-08	15-Dec-11	1,086.6		546.1	50.3
Rural Electrification and Renewable Energy Development	Rural Developm	15-Jan-10	31-Dec-10	130.0		0.6	0.0
Road Safety Management Capacity Review	Transportation	12-Oct-09	30-Sep-10	125.0	0.5	75.0	60.0
Disaster Risk Reduction Institutional Mainsreaming Strategy and Priority Intervention Areas in Sana'a	Urban Development	28-Mar-08	28-Feb-11	230.0	2.0	163.5	71.1
Yemen Water for Urban Centers		20-May-10	30-Jun-12	251.2		16.8	6.7
Water Partnership Program (Water Resources Management)	Water	23-Dec-09	31-Dec-10	60.0	0.3	24.3	40.4
Offering Second Chances to At-Risk and Marginalized Youth	Youth	28-Jul-09	28-Jul-13	1,849.4	8.2	191.9	10.4
Offering Second Chances to At-Risk and Marginalized Youth		28-Jul-09	28-Jul-13	90.0		54.0	60.0
<b>Total</b>				<b>23,525.1</b>	<b>100.0</b>	<b>8,968.0</b>	<b>38.1</b>

Source: WB

## VIII. KEY INDICATORS

### Yemen: Key Economic Indicators

	2006	2007	2008	prel. 2009	proj. 2010
(In %, unless otherwise indicated)					
<b>National income and prices</b>					
Real GDP	3.2	3.3	3.6	3.9	8.0
Hydrocarbon	-8.3	-13.1	-8.1	1.6	51.0
Non-Hydrocarbon sectors	4.7	5.3	4.8	4.1	4.4
CPI (period average)	10.8	7.9	19.0	3.7	9.8
Crude oil production (In thousand barrels per day)	357	310	284	274	275
Average oil export price (US\$ per barrel)	62.8	72.3	95.5	60.3	73.5
(In % of GDP)					
<b>Central government finances</b>					
Revenue	38.6	33.2	36.7	25.0	27.2
<i>Of which oil:</i>	28.9	22.6	27.8	14.6	16.7
Expenditure	37.4	40.3	41.2	34.6	32.6
Current	28.2	31.4	34.5	28.7	25.7
of which: wages and salaries	9.9	10.9	10	11	8.9
Subsidies	8.2	9.5	14	8.2	8.7
Capital	7.3	7.2	5.9	6.5	6.9
Overall fiscal balance	-0.7	-5.8	-3.2	-10.2	-5.4
Primary non-oil fiscal balance (cash)	-42	-38	-41	-28	...
<b>Reserves</b>					
Gross official reserves (billions of U.S. dollars-end period)	6.8	7.0	7.3	6.2	4.7
In months of imports of goods & non-factor services	10.2	8.0	9.3	7.5	5.4
<b>External Debt</b>					
External debt (in billion of U.S. dollars)	5.4	5.8	5.9	6.1	6.4
External debt (in % of GDP)	28.7	26.9	21.9	24.2	21.2
<b>Exchange rates</b>					
Exchange rate ( per US\$, period average)	197.1	199.0	199.8	202.9	...
<b>Memo Items</b>					
GDP in billion Riyal	3,760	4,309	5,376	5,098	6,737
GDP in billion US\$	19.1	21.7	26.9	25.1	30.2
Population (in millions)	21.7	22.4	23.1	23.7	24.4
Crude birth rate (per 1,000)	38.5	38.3	...	...	...
Immunization, DPT (% of children under 12 months)	85.0	87.0	...	...	...
Incidence of tuberculosis (per 100,000 people)	79.1	76.5	...	...	...
Surface area (sq. km)	527,970	527,970	...	...	...
Population density (people per sq. km of land area)	41.2	42.4	...	...	...

Source: GOY and Staff calculations