

REPUBLIC OF YEMEN:
Comprehensive Development Review, PHASE I
Public Sector Management Building Block

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I. OVERVIEW

This paper was prepared as part of a stock taking phase of the Comprehensive Development Review (CDR). As a building block, *public sector management* (PSM) is encompassing. There are multiple dimensions, each of which cuts across sectors. This note simply presents a compendium of information of some of the key topics that fall under the PSM rubric. Because of the range of topics, the focus of this note is on consolidating information rather than on an analysis of the key constraints and recommended policy changes. In future stages of the CDR process, it would be useful to first better determine the focus and objectives of the exercise so that the analysis can be tailored to those requirements.

This section presents the country context and provides an indication of the magnitude of performance problems, and identifies some of the enduring challenges to institutional reform. Section II discusses aspects of government finance: the budget (formulation, execution, and control); public expenditures; and government revenues. Section III outlines the rules under which the civil service functions and the extent of compliance with those rules. It then highlights some key characteristics of public sector employment. Section IV provides a historical context under which the current debate in Yemen on decentralization is taking place, and highlights key issues the government will need to contend with regardless of the form of decentralization on which it embarks. The legal and judicial framework, regulatory issues, and the public enterprise sector are not addressed as they are covered under separate building blocks. Finally indicators for monitoring the status of public sector management are provided in the Annex.

A. COUNTRY CONTEXT

The People's Democratic Republic of Yemen (PDRY) and the Yemen Arab Republic (YAR) unified in May 1990. Particularly with the discovery of oil a few years earlier, unification was expected to spur the kind of rapid development that was taking place elsewhere in the Arabian Peninsula. Foreign donors were also expected to support the new state generously, considering its interest in democratization and economic liberalization.

However, hopes for an easy transition were dashed by Iraq's invasion of Kuwait in 1991 and the subsequent Gulf War. As a sanction against its perceived lack of solidarity with the Gulf monarchies, Yemen lost all aid from the Gulf, and about 800,000 Yemeni migrants returned from Kuwait and Saudi Arabia. In the following years, many other Yemenis who were living in Somalia, Ethiopia and Eritrea returned home, thereby accelerating the rate of urban growth and increasing unemployment.

Economic deterioration, tensions related to the economic reform agenda, and continued political pressures from unification led to the costly civil war of May-June 1994. Following the civil war, efforts focused on reconciliation. In 1995, with the achievement of political stability, the Government started an ambitious program of

macroeconomic stabilization and embarked on a series of structural reforms (for details see the macroeconomic building block).

The Republic of Yemen is officially a multiparty democracy with three branches of government. The executive branch is led by the President who, as head of state, appoints the Prime Minister, The Prime Minister appoints his council of ministers (current 30) in consultation with the President. The legislative branch consists of a 301-seat unicameral parliament elected to four year terms. The judicial branch is constitutionally independent. Islamic law is officially the sole basis for legislation. The organizational structure of government is provided in figure 1.

Ali Adullah Saleh assumed the presidency of the newly united Yemen in 1990 (he had been president of YAR since 1978). The legislature re-elected him as president on October 1, 1994. In September 1999, he was confirmed as president following a direct popular election to a five year term. The President also appoints a consultative council of influence citizens to advise him.

Yemen's first national election was held in 1993 when 301 deputies were elected to parliament. The second national election was held in 1997. The 1997 parliamentary elections gave a two-thirds parliamentary majority to the president's party.

Citizens have the right to form political parties and to compete in elections; at age 18 there is universal suffrage. There are well over a dozen political parties, with the main parties represented in the Parliament including: the General Peoples Congress (ruling party), the Yemeni Alliance for Reform (al-Islah), the Nasserist Party, and the Arab Socialist Ba'ath Party (see tables 1 and 2). The Yemeni Socialist party boycotted the 1997 Parliament elections.

Table 1: Change in Parliament Seats by Party

<i>Party</i>	<i>1993</i>	<i>1997</i>	<i>Change</i>
General People's Congress	123	187	+64
Yemeni Alliance for Reform (al-Islah)	62	53	-9
Yemeni Socialist Party	56	0	-56
Arab Socialist Ba'ath Party	7	2	-5
Nasserist parties	3	3	0
Truth Party (al-Haqq)	2	0	-2
Independents	47	54	+7
(Election postponed)	1	2	
TOTAL	301	301	

Source: Yemen Gateway (<http://www.al-bab.com/yemen/pol/tab7.htm>)

Table 2: Parliament Seats by Party Allegiance (1997)

<i>Party</i>	<i>Official</i>	<i>Plus</i>	<i>Total</i>
General People's Congress	187	39	226
Yemeni Alliance for Reform (al-Islah)	53	10	63
Yemeni Socialist Party	0	2	2
Arab Socialist Ba'ath Party	2	0	2
Nasserist parties	3	0	3
Independents	54	-51	3

Source: Yemen Gateway (<http://www.al-bab.com/yemen/pol/tab7.htm>)

B. PERFORMANCE ISSUES

Yemen's public administration was severely impacted by a series of events since 1990: the unification of the North and the South required the merger of two very different systems creating a much larger civil service that at times duplicated functions; the return of around 800,000 Yemenis from the Gulf following the Gulf War required the Government to absorb a large number into the civil service for social reasons, further exacerbating the problem of over-staffing; and the economic turmoil throughout 1990-95 caused civil service wages to decline substantially in real terms. The overall result now is a very large, poorly-trained and poorly-paid public administration that lack adequate enforcement of civil service processes and procedures.

At the same time, for the same set of reasons, the budget processes was not as effective as it should have been. Planning of expenditures and revenues was not always done with a proper framework. Emergency stabilization measures have brought the system under still greater stress. Fiscal adjustments had to be done quickly, but in the absence of a smoothly operation budget system, the cuts were not always carefully targeted across different expenditure categories. Maintenance expenditures have suffered particularly, raising the issue of sustainability of many investments.

Service Delivery

While there are no formal service delivery surveys, there are indications of poor service delivery. For example, a 1997 FIAS report cites investor concerns over discretionary application of laws and regulations, under-paid and unmotivated civil servants, and a lack of protection for property rights and enforcement of contracts.¹ Key development indicators also point to limited access to and quality of basic services. For example, enrollment rates, at both the primary and secondary level, are low. Adult illiteracy remains among the highest in the world. The low life expectancy and high infant mortality are indicators of deficiencies in basic health care provision. And, while not out of line with comparator countries, almost half of the population remains without access to safe water (see table 3).

Table 3: Indicators of Service Delivery

	<i>Yemen</i>		<i>Comparator</i>	
	1970	1996	1970	1996
Gross Primary Enrollment	41	53	55	72
Gross Secondary Enrollment	8	23	9	21
Adult Illiteracy	90	62	79	54
Access to Safe Water	5	52	na	42
Life Expectancy (*)		54		63
Infant Mortality Rate (per 1000 live births) (*)		96		69

Source: *Country Assistance Review*, Operations Evaluation Department, World Bank, Report No. 19030, 1999. For (*), 1998 figures from Yemen At-A-Glance.

¹ Investors' Perceptions and Diagnosis of the Environment for Foreign Investment. FIAS, June 1997.

Hence, Yemen needs to enhance and expand coverage of services, in an environment of limited capacity and financial constraints. Meeting this challenge will require substantial upgrading in the system of public sector management so that scarce financial and human resources are most effectively deployed.

An indicative assessment of citizen satisfaction also points to poor service delivery.² Households were asked whether or not they used certain basic services in the past six months, the portion of these services provided by the government, and satisfaction with the services. Private service providers were proportionately more common for health care and garbage disposal, though the government still provided about three-quarters of these services. With the exception of telephone services (used by only about 10% of the households), satisfaction levels were dismal (see table 4). While the court system and police services were used by only about 10% of those surveyed, 75% and 84%, respectively, of those individuals were dissatisfied. For both education and health care, less than half of the users were satisfied. Many of the common causes of dissatisfaction that were cited could be addressed through better management of limited resources, adequate funding for operations and maintenance, more careful attention to local needs in the planning process, and service provided by appropriately motivated, accountable, honest civil servants.

Table 4: Access To and Satisfaction With Services

<i>Service</i>	<i>Service used in last 6 mth (% of HH)</i>	<i>Service provided by gvt (% of services)</i>	<i>Satisfied with services (%)</i>	<i>Main reason for dissatisfaction</i>
Health services	80	72	43	High cost, lack of concern of health staff, no medicines
Schools	64	98	50	Poor quality, lack of desks/chairs, far away, disrepair, associated costs
Water	62	78	35	Frequent cuts, low pressure, price increases
Electricity	50	100	56	High prices, power cuts, poor service
Sewage	40	82	50	Lines in disrepair, no service
Garbage disposal	29	72	28	Containers far away, negligence, dishonest employees
Courts	12	100	16	Bribes required, no justice
Telephone	11	100	81	
Police	11	100	26	Dishonesty, delays in resolving conflicts

Source: *Social and Institutional Assessment*, Proposed Civil Service Modernization Project

Survey respondents were also asked which services that are currently unavailable should the government be providing to the poor (see table 5). While not all the services

² Based on qualitative focus groups discussions (8 communities in 4 governorates) and a quantitative household survey (6 urban and 6 rural communities, each with a representative sample of at least 50 households) for the *Social and Institutional Assessment*, proposed Civil Service Modernization Project.

mentioned are best provided by the government (e.g., lower food costs, job opportunities), the top four responses (water, electricity, health care and education) could be enhanced by improved public sector management and/or more effective partnership with private sector service providers. Several other responses reveal a broad concern for a more effective safety net than currently exists. (See social safety net building block). It is also important to note that the low quality of public services is particularly problematic for the poor since they lack the resources to "vote with their feet" by using private providers of education, health care, or power generation.

Table 5: Unavailable Services that Government Should Provide

<i>Services, by grouping</i>	<i>Number of respondents</i>
Water, regulate water service	148
Nearby health care, inexpensive or free health services, mother and child centers	102
Electricity service, improved electrical apparatus	100
Education, expansion of schools, free education, improved quality, school equipment and facilities, school for girls, transportation for students	84
Food assistance, lower food costs	84
Job opportunities	33
Sewers	31
Garbage collection, clean the streets	31
Provide homes, repair old houses, enlarge houses	23
Telephone services	21
Pave streets	21
Loans with easy conditions	16
Improve electricity service	11
Financial assistance, Clothing for the poor, Raise incomes, Provide cooking gas, Lower costs of services, Provide security, Provide fishing boats, Gardens for children, Provide merchandise on installment, Provide agricultural services, Provide social welfare, Provide land, Take care of the environment and pesticides, Improve social welfare, Laws to resolve disputes, Police station, Youth clubs, Make available a just person to resolve problems, Provide harbor for boats	10 or less each

Source: *Social and Institutional Assessment*, proposed Civil Service Modernization Project

Civil Servants' Attitudes

Complementing the household survey, a survey of civil servants sought their perspectives on the main constraints to an effective and efficient civil service and the main problems within their own ministries.³ Numerous factors were identified including:

- lack of dialogue between lower-level civil servants and higher officials, with a consequent lack of awareness of the circumstances in which lower-level employees operate (a particular problem in schools and hospitals);
- lack of supervision, which allows for absenteeism and double dipping;
- inadequate salaries, leading to petty corruption;
- larger-scale corruption among the politically protected;
- conflicts of interest (high-level health administrators own private clinics and recruit staff from public facilities);
- non-imposition of penalties for misbehavior;
- salaries and promotions based on kinship and personal connections rather than performance;
- exploitation of lower-level civil servants by their supervisors (attaching their salaries to pay for medical expenses);
- lack of transparency in hiring;
- non-enforcement of retirement rules, and continued recruitment in spite of a hiring freeze;
- lack of formal procedures for conflict resolution;
- overcentralization of administrative procedures (civil servants must travel to Sana'a at their own expense to have promotions processed);
- unequal treatment of civil servants across ministries;
- lack of training and opportunities for advancement;
- lack of opportunities for women;
- insufficient resources; and
- an unclean workplace.

Corruption, in particular, was mentioned by 70% of respondents; and 60% said that corruption is more rampant at higher than at lower levels.

The rest of this section highlights performance issues raised by staff in the three largest civilian ministries in Yemen, the Ministries of Education, Health, and Construction (see table 6).

³ From a survey of [xx] civil servants in [x] ministries in [x] different locations as part of *the Social and Institutional Assessment* for the proposed Civil Service Modernization Project.

Table 6: Largest Ministries

	BUDGET ALLOCATION			% civilian employ. (**)
	Millions of YR			
	1999	2000	2000: Wages	
Total	355,599	422,248	149,297	
Defense (*)	61,686	75,754	44,400	
Education	57,569	76,586	55,642	50.0%
Interior (*)	17,730	20,465	12,146	
Health	14,395	18,422	8,028	9.6%
Construction	14,397	18,898	2,175	5.3%
Water and Electricity	8,311	12,254	16	0.0%
Agriculture	6,842	9,160	1,507	3.1%

(*) non-civilian ; (**) percent of civilian employees in the Ministry (does not include employment in the associated agencies under the concerned ministries or in other agencies in the sector)

source: WB staff calculations

The Ministry of Education (MOE) is responsible for educating a rapidly growing population that is more than 50 percent illiterate. The system still suffers from a lack of teachers, particularly in the countryside; a glut of administrators (many teachers move over to administration because of better salaries); excessive centralization (students need approval from Sana'a to have their files transferred to another school); and lack of responsiveness to teachers' concerns (school headmasters hand down rules without consulting their teaching staff).

The system also suffers from an over-reliance on foreign teachers, most of whom were brought in by the MOE of the YAR. By 1990, more than 30,000 foreign teachers were working in the countryside and other areas where Yemeni teachers would not go because of harsh condition and the inadequate allowance for transportation and housing. Rather than increasing this allowance, the MOE made the decision to attract foreigners by paying 50 percent of their salaries in US dollars. Their contracts are now being phased out, but the process is hindered by the fact that some MOE employees are renewing foreigners' salaries in exchange for bribes (usually a portion of the foreigner's salary).

Corruption also takes other forms: unlawful fees to register students in schools; sale and forgery of certificates and diplomas; speed money to process files; purchase of medical reports declaring a teacher unfit for teaching (to facilitate transfer to an administrative position); and bribery to return from the countryside to the city. These opportunities account for the resistance to reform of many civil servants in the MOE.

The Ministry of Public Health (MOPH) presides over a health system characterized by acute governance and resource management problems, with many opportunities for corruption. The ministry does not provide satisfactory public health services in rural areas and secondary towns; nor does it adequately supervise the rapidly expanding private health care industry.

The country's health system is also suffering from chronic and sometimes permanent absenteeism, and hospitals can not fill positions held by absent personnel. In

addition, many doctors and nurses hold second jobs in private clinics, and a number of high administrators own such clinics. Public facilities are often used for private operations; many public employees, including midwives, demand bribes for providing care; lab technicians refuse to perform analyses requested by doctors; and there is widespread intervention of unqualified persons in medical matters.

The Ministry of Construction, Housing, and Urban Planning (MOCHUP) has a wide range of functions, ranging from construction of roads and bridges to issuing shop licenses, overseeing food safety, and designing urban master plans. Civil servants working in this ministry have an ambivalent relationship with the private sector. On the one hand, there are many opportunities for large-scale corruption, including kickbacks from contractors. On the other hand, a number of private sector firms utilize MOCHUP employees. Some of these firms are owned by government officials, and some are prospering because of special entitlements from the public sector.

MOCHUP has begun to experiment with reform. It has contracted out solid waste collection, but the contractors' employees were still civil servants, and cleanliness did not improve. There is now also a plan to decentralize the ministry's oversight of municipal-level activities to local authorities linked to Ministry of Local Administration, as well as to make the Road and Bridges Public Corporation more efficient so it can compete with private contractors. Despite these initiatives, however, engineers and architects in the civil service expressed reluctance to leave MOCHUP and move into the private sector, particularly as entrepreneurs, because Yemen has no law requiring developers to use their services, and there are no professional associations to protect their interests.

II. GOVERNMENT FINANCE

This section looks at very briefly at three aspects of the government finance. The first part reviews Yemen's budgetary institutions (preparation, execution, and control). The second part considers the effectiveness of the public spending programs in creating conditions for sustainable growth and poverty reduction. The third part looks at public revenues.

A. BUDGETARY INSTITUTIONS

There are three crucial questions to look at in assessing whether or not budgetary institutions foster good expenditure outcomes. Do institutions safeguard overall fiscal discipline? Do they ensure that budgetary allocations reflect the strategic priorities of policy makers? And do they promote efficient, effective use of resources as agencies spend the allocation. This section looks at the budget formulation process, the budget execution process, and budgetary control in light of these three characteristics.

Budget Formulation

In the past, budgets were prepared without broad agreement on a macroeconomic framework and financial aggregates. Budget circulars provided no indication of the

financial limits within which the budget requests were to be made. And the forms which line ministries had to complete for investment projects were overly detailed. As a result, line ministries submitted high budget proposals (which they regarded as initial bargaining position) and incomplete forms (generally excluding even the most basic, critical data). As result, budget proposals were cut through a time-consuming, *ad hoc* process that did not necessarily reflect sectoral priorities. Furthermore, the budget process was not unified. The Ministry of Finance (MOF) prepared the current budget, with the Ministry of Civil Service and Administrative Reform taking the lead on the wage portion. The investment budget was prepared separately by the Ministry of Planning and Development (MOPD). In the past, the particularly poor coordination between the formulation of the investment and recurrent budget led to ineffective and inefficient resource allocations.

There has been a sustained effort over the past couple of years, supported by IMF technical assistance, to correct some of these problems. These efforts culminated in the introduction of a new budget preparation system for the year 2000 budget (initiated in the summer, 1999 and approved by Parliament in December, 1999). Noteworthy, the overall responsibility for the budget has been given to the MOF. A unified budget circular was issued that at least provided some guidelines on spending ceilings within a budget envelope set from a medium-term macroeconomic framework developed with the IMF. These guidelines, however, continued to be incremental in nature, therefore providing very limited flexibility for line ministries to make allocation decisions between budget chapters. Furthermore, in general, line ministries did not submit constrained budgets. The process of cutting back proposal was done, as in the past, during budget committee negotiations.

While the issue of inadequate coordination between the MOF and the MOPD has more or less been resolved, other institutional factors continue to hinder effective budget preparation. These factors include: (i) continued confusion, in practice, on the responsibilities of line ministries; (ii) low civil service salaries and inadequate managerial autonomy; (iii) no forward budget estimates; (iv) severely limited flexibility of line agencies; and (v) the absence of objective criteria on which to base allocation decisions.

Fiscal discipline. A medium-term macroeconomic framework is now being used, but it is one developed primarily with the IMF. There is no in-house capability with which to establish overall and sectoral envelopes within which expenditures programs are to be prepared. For the past couple of years, such units have been established (on paper) in both the MOPD and MOF, but neither have the staff or skills.

Strategic priorities. To focus public expenditures on priorities, sector strategies are now being prepared in key line ministries. Public expenditures are to be aligned with sectoral objectives on the basis of these strategies. Forms for development projects have also been simplified, and effort are underway to maintain a reliable database on investment projects, including information on resources needed for completion and the extent of physical completion. In the past, lack of this information has made budget preparation difficult. However, to date, institutional confusion over the responsibilities of line ministries and the MOPD has impeded the development of such a database.

Efficient use. Several characteristics of the budget impede efficient use of budgetary resources. Some of these issues that need to be addressed during the budget formulations process include:

- There are “projects” in the budget that actually finance the upkeep of existing facilities. Such projects should be transferred to the current budget.
- The investment budget typically includes a large number of projects that are only partially funded. For example, rather than financing the construction of one school, resources are provided to finance the partial construction of five schools. As a result, a large portion of the budget is spent without usable assets being created. Closer attention needs to be paid to including only priority projects in the budget and funding them adequately.
- There is inadequate funding of operations and maintenance. The problem is particularly severe in the education, health, and agriculture sectors. Adequate provisions for O&M need to be made, and closer attention needs to be paid to the trade of between initiating new projects and increasing allocations to O&M.

The 2000 Budget. (1) Defense spending is up (over 20% increase amounting to some US\$ 90 million; to put this in perspective, this increase is equivalent to the total amount budgeted for the Ministry of Public Health in 1999). (2) The wage bill has increased dramatically (35% of the budget, in large part because of the costs of implementing the new teacher and healthcare worker laws). (3) Finally, the public investment budget is, in real terms, about 20-25% higher than last year. It is unlikely that the government can efficiently undertake this level of public investment as they haven't demonstrated this capacity at the lower investment levels.

The budget, as presented to Parliament, shows a deficit of about 3.5%. This is at the outer range of what can be financed from non-inflationary sources. While the budget was prepared on the basis of oil prices at \$17/barrel (and expected prices based on future markets points to a more likely case of around \$19), other assumptions are unlikely and may push the realized deficit higher.

Budget Execution

The existing procedures for the release of funds to spending agencies and the control over expenditures from the budget are time-consuming, difficult to administer, and not very effective. As a result, monitoring of budget execution is not timely, and there is insufficient information available for effective cash management. Furthermore, the system for reallocating appropriations inhibit the managerial function of making bona fide shifts in expenditure to attain specified objectives. Ad hoc procedures for supplementary appropriations do not permit proper priority planning.

At the agency level, each spending unit has 3 separate accounts at the Central Bank, one of recurrent expenditures, one for development expenditures, and one for revenue. The MOF keeps track of budget execution through these Central Bank accounts. However, these accounts can not provide detail on budget execution below the chapter

level. Each month, MOF makes an allocation for spending on each account, based on Central Bank data on cash flows. The main macro-fiscal control is that cumulative expenditures on each chapter does not exceed MOF allocations. Each agency is supposed to submit a monthly statement of revenues and expenditures to the MOF. Usually, agencies are delayed by late returns from branches in the governorates. There are no comprehensive commitments accounting, though large commitment may be recorded in statistic records. Reforms are planned to correct some of these information deficiencies, and to transfer functions from the Central Bank to the MOF.

In principle, the General Director of Finance (a MOF employee) controls budget execution in each spending unit. All payments must pass through him. However, with dual reporting responsibilities, under-qualified staff, and limited motivation of the poorly paid staff, there is ample opportunity for circumventing the system of control.

Execution of the 1999 Budget. Preliminary numbers on the realization of the 1999 budget and the content of the 2000 budget indicate that in 1999 the Government's prioritization program was not observed in some sectors. For example, in both health and education, the 2000 budget includes many of the high priority projects that were expected to be completed in 1999. In addition, in agriculture the government planned to shift a number of "projects" that actually financed upkeep of existing facilities to the recurrent budget. However, these projects continue to appear in the 2000 proposed program. Similar problems are found in the education and transportation sectors. Although the implementation of the 1999 budget was complicated by the changing price in oil and resulting uncertainties in the overall resource envelope, there were other common problems. For example, line ministries (health, education, agriculture) indicate that in March, when resource allocations were cut, they also received instructions on how to apply the cut across individual projects rather than allowing ministries to apply cuts in line with its prioritization program.

Budgetary Controls

Yemen's budget control system is lacking in the required fundamentals which include:

- Clear laws and guidelines on financial administration and penalties for non-compliance;
- Clear organization and procedures defining who does what and how;
- Competent and motivated public officers and good supervision; and
- Ex-post and independence audit of financial transactions and investigation and reporting of irregularities.

According to Finance Law Number 8 of 1990, (article 56), the Ministry of Finance is responsible for overall financial control, internal control and inspection, and preparation of the final accounts of the Government. While MOF is assigned these responsibilities, it does not always have effective tools with which to fulfil its mandate, Nor does the Finance Law provide for sanctions when violations are uncovered.

The Central Organization for Control and Auditing (COCA) is designated as the supreme audit institution in Yemen under COCA Act No 39 of 1992. It is charged with the responsibilities of: (i) control over public funds; (ii) performance audits; and (iii) development of the accountancy and auditing profession in Yemen. To meet these objectives, it is authorized to conduct financial, compliance, and performance audits. In principle, it performs an annual financial audit on every ministry and authority, in each governorate, as well as all parastatels and bodies in receipt of government subsidies. In practice, it does not have the required technical competency nor can it cover all agencies every year. Furthermore, follow up on audits is weak.

In addition there are about 30 agencies in which internal audit units have been set up. There is some confusion about internal audit as a ministry may have two internal audit units, one performing a pre-audit on financial transactions and reporting to the chief accountant (this reporting indirectly to MOF and COCA), and also an Internal Audit and Inspection Unit, heading by a General Director, performing financial and technical audit of compliance with laws and regulations, appointed by the Minister to which he appoints. In the Ministry of Construction and housing, for instance, the Financial Internal Audit has three to four officers, while the General Internal Audit has 30 staff including five structural engineers, who prepare between 80 to 90 reports a year containing details on infractions of the law, both financial and technical, naming officers responsible, for the Minister's decisions about whether or not to take action. These reports are internal and rarely copied to the MOF or COCA, although COCA does have the right of access. Internal audit staff numbers are increasing, and a recent presidential decree requiring internal audit units to be set up in all ministries.

B. EXPENDITURES

There are four main reasons why Yemen's public expenditure program does not reflect the detailed prioritization needed to make the best use of limited resources.⁴ Addressing these problems would increase the impact of public expenditures on growth as well as on alleviating poverty.

- i) The data on projects are inadequate to carry out a prioritization of the investment program. Details on the total cost or money required to complete ongoing projects are not available; nor is there information on the extent of physical completion.
- ii) The investment program consists of a very large number of small projects. Planners are under great pressure to include low priority projects to serve regional interests, even if they have only a token allocation. This means that resources are spread thinly over many projects, which remain unfinished year after year. Thus, money is spent without creating usable assets.
- iii) The composition of the sectoral investment program often does not reflect the sector strategy. Part of the problem may be the absence of a broad agreement on sectoral objectives. For instance, although the sector strategy in power and water

⁴ Identified in Public Expenditure Review, and the topic of ongoing support to correct since then.

stresses an increasing role for the private sector, most of the investment in these sectors continues to be financed by public funds. Similarly, in the education sector, expenditures do not reflect the emphasis government policy places on expanding primary education especially for girls and in under-served areas.

- iv) Recurrent resources for operations and maintenance (O&M) are rarely sufficient to operate existing facilities. This makes it even more difficult to provide the O&M budget for facilities coming on stream out of the ongoing investment program. Often the planners and donors get around this by including projects in the investment program, which are in fact instruments to finance recurrent costs. Thus, the resources required to operate existing facilities are severely understated in the budget. The lack of O&M outlays is a major reason behind the poor delivery of health and primary education services which are crucial to alleviate poverty in the medium term.

To create the conditions for sustainable growth and poverty reduction, the government needs an expenditure reform program that focuses on reducing nonessential current spending, maximizing benefits from investment spending, and reorients outlays toward priority areas. Areas where current spending could be rationalized include: (i) remaining (minimal) subsidies; (ii) aggregate transfers to public enterprises and entities; and (iii) the large public sector wage bill. Instead, current expenditures could be reoriented toward priority areas of education, health, O&M for infrastructure and the social sectors, vocational training programs, and the social safety net.

The relatively high levels of development expenditure in past years have had little measurable impact on economic growth, reflecting weaknesses in selecting the most productive projects and in monitoring implementation. To ensure the quality of public investment, the government needs to strengthen its capacity to select projects with the highest economic return and to monitor implementation. In the meantime, development expenditure need to be limited mainly to ongoing projects. Given the pressing physical infrastructure needs, development outlays will need to be maintained at a high level, with priority given to basic education and health, power, water and wastewater, transport (roads, ports, and airports), and agricultural extension and research. Public investment in the power and water sectors needs to be supplemented by the opening of these sectors to private investment.

C. REVENUES

At only 10% of GDP in 1998, Yemen has one of the lowest non-oil tax effort in the region. In addition, the tax system contains a number of inefficiencies resulting from inappropriate definitions of the tax base, nuisance taxes which yield little revenue, and arbitrary exemptions. Finally, like many other areas of the government, tax administration needs substantial improvement.

Since 1997, in the framework of the IMF's ESAF/EFF programs, the Government has embarked on a program to increase non-oil revenue and improve its efficiency. The Government has submitted to the parliament two new tax laws which thoroughly reform

both direct (income) and indirect (production) taxes. Proposed changes to the income tax system include consolidating income from all sources, rationalizing tax brackets, broadening the tax base, and eliminating ad-hoc exemptions. Indirect tax reforms include the introduction of an excise tax which approximates a general sales tax (GST). The measure will provide for an input tax credit mechanism to avoid cascading, zero rating of exports, and drawbacks for import duties and indirect taxes. This system is, however, only a precursor to a more comprehensive GST which the government plans in the coming few years. The Government is currently engaged in studying a GST system appropriate for Yemen in light of the experiences of other countries in the region. Other indirect tax reforms include the introduction of ink-stamped packets for domestic cigarettes and a bandroll tax on imported cigarettes, the elimination of all stamp taxes, and amendments to the investment law to eliminate extensions to exemptions on taxes and duties. In the areas of tax administration, reforms include a range of measures from simple steps as the introduction of a tax identification number, to more difficult actions such as the improvement in the working of the customs and simplification of tax administration. Training programs for tax collectors and an awareness program for tax payers are also planned.

Changes in tax policy (simplified rates, less discretion) as well as tax administration should help to reduce the potential for corruption in revenue collection. Improvements to the financial management system should also help shift the incentives for business to report extortion rather than to collude with corrupt officials. Rationalization of public expenditures is also be key to the government's integrity efforts, since if taxpayers do not see that their taxes are being put to good use, evasion and corruption may become socially acceptable.

Implementation of a comprehensive customs administration reform began in mid-1997 in order to establish simplified and efficient clearance and duty collection procedures as well as duty drawback and temporary admissions procedures. Following the introduction of the Harmonized System of Nomenclature (HS) in 1997, computerization of customs clearance operations is underway utilizing the ASYCUDA system. The modernization of customs operations at Sana'a airport and the Hodeida seaport achieved during 1998 will be gradually phased in at all other customs offices.

III. CIVIL ADMINISTRATION

This section looks first at the legislative framework, and the extent to which it provides a sound governance structure, in principle and in practice. The second part of this section discusses various trends and characteristics of public sector employment.

A. Legislation and Regulations

The main legislative framework should provide a coherent set of formal rules and institutional arrangements. The legal framework in Yemen consists of Civil Service Law Number 19/1991; Republican (Presidential) Decree Number 122/1992; and Prime Ministerial Decree Number 276/1992 which establishes the rules for hiring in the public

sector, the qualifications required for civil service positions, and the salary scale for those positions.

The Civil Service Law applies to employees in all of the government's administrative units.⁵ It also covers employees in the public enterprise and mixed sectors, unless additional legislation that specifically governs those sectors is issued.⁶ It does not apply to the armed forces, the Ministry of Interior (except administrative staff), the judiciary, nor the diplomatic corps. Provisions are also made to exclude any set of employees whose positions are governed by specific, additional legislation. In this regard, laws have been issued that create specific cadres within the civil service (e.g., teachers, health care workers, and university professors). These laws were all issued to provide higher compensation packages to these cadre of employees.

The rest of this section highlights some of the key characteristics that are desirable in civil service legislation and the extent to which these characteristics are evident in Yemen, both legally and in practice. In summary, the main deficiencies in Yemen's legal framework are in the areas of merit based employment, prevention of nepotism and political interference, and conflict of interest. Also missing are clearly defined, functioning oversight responsibilities and citizen dispute resolution mechanisms. These could all, perhaps with the exception of merit based promotion, be instituted through changes to operating regulations. Furthermore, a more systematic, regular review of compliance with legislation would be beneficial.

Code of Conduct. There is no separate code of conduct, but the Civil Service Law sets out basic duties and principles of employment. Public employment carries with it the responsibility to serve the public interest with trustworthiness and in a manner in which public interest prevails over self interest. Staff must abide by their duties, perform efficiently and honestly, maintain proper attendance, respect citizens, and exercise due care with State property. Staff may not engage in more than one civil service job nor in any other employment during official working hours. They are also forbidden from using their position as a means of influence to obtain benefit for themselves or others. Public employment is based on equal opportunity and rights for all citizens.

Probity. Except for the prohibition against using office for personal gain, there are no specific rules against conflict of interest in the civil service legislation. The Financial Law Number 8/1990 (article 58) requires that all employees in revenue entities and financial fields make annual personal financial disclosures. This has never been implemented. In 1997, as widely reported in the press, the Prime Minister sought to introduce financial disclosure at the cabinet level; however this idea never got past cabinet discussions.

Political neutrality. The Civil Service legislation does not set forth rules of political neutrality, nor is political activity prohibited within the civil service. Political

⁵ It does not cover the constitutional positions which include the prime minister, ministers, and vice-ministers.

⁶ No such laws have been issued.

activity and electioneering takes place while staff are on duty and on governmental premises. Almost all political party workers are actually civil servants on secondment from their original position (with the original agency continuing to pay their salary). This is actually permitted in the law for periods of up to 12 months. However, most such party workers have been on secondment for far longer.

Merit based recruitment. Yemen's legislative framework does not require merit based recruitment, but it does allow for it. In fact, even public announcement of vacancies, by law, is only required for positions if MOCSAR decides it is essential or if the concerned administrative unit recommends it. This year, MOCSAR issued instructions on recruitment procedures that for the first time required the announcement of all positions and specified a selection process which, while not on merit, was at least transparent in detail and based on selection by pre-specified minimum qualifications. The law also allows for MOCSAR to identify positions subject to examination, although this has never taken place. Nor are there any institutional structures to support holding a public service entrance exam. Difficulties in moving to merit based recruitment are compounded by the lack of job descriptions and identification of appropriate qualifications for specific positions.

Appointment to top senior management positions requires a Republican Decree based on the nomination of the responsible Minister and approval of Council of Ministers. For other senior management jobs, the process is the same except the appointment is by a Prime Ministerial Decree. For other civil servants, new appointments are by decree of the concerned minister or his delegate.

Merit based promotion. In Yemen, there are two types of "promotions." Advancement refers to movement from one strata to the next in the same job grade. Technically, an employee is entitled to advancement if his performance in the past two years has been judged excellent. Promotion, moving from one's current job grade to a higher one, takes place whenever the individual meets the minimum qualifications for that higher grade (*i.e.*, through additional education or years of experience) and when he is at least a good performer. In the law, there is a preference for promotion from within the administrative unit.

This process of promotion points to serious problems. There is a lack of linkage between grade and job position. A person holds a specific grade, based on his qualifications and years of experience, that is not necessarily tied to the position that he holds.

Performance assessment. Each employee's performance is supposed to be evaluated annually by the direct supervisor for review by the senior supervisor. All performance evaluations are presented to the Employees Affairs Committee⁷ which confirms the evaluations. Employees are notified in writing of their evaluation. It appears that the right of appeal is limited to senior management positions. There are no

⁷ A committee that at HQ consists of the Vice Minister, one Deputy Minister, three of four Director Generals from the ministry, and an employee representative.

prescribed sanctions for poor performance, and administrative units are simply instructed to attempt to correct deficient performance through training. The only link between performance evaluation and other human resource policies are certain performance requirements for advancements and promotions.

In practice, assessments are usually made on annual basis at the headquarters, but erratically in the branch offices. Most staff are rated as either very good or excellent, with no real attention to their performance. Performance evaluation, either based on compliance or on objectives, is especially difficult in the current setting where workable job descriptions are generally not available.

Oversight mechanisms for civil servants.⁸ Under the Civil Service Law, each Minister is responsible for overseeing the conduct of his/her own employees. Complaints and claims against a public official are reported to the personnel manager⁹ of the ministry or the Office of the Attorney General. Allegations may come from a manager, members of the public, COCA, or a Internal Audit and Inspection Unit.

In most cases, efforts are made to resolve disputes internally (this applies to personnel up to the level of Director General). The personnel manager and his department, with the Minister's consent, investigates the allegation. Evidence is placed before the Employee's Affairs Committee with the accused staff permitted representation. If guilty, the personnel committee has ten specific penalties, of increasing severity, at its disposal. It may also forward the case to an inter-ministerial disciplinary council, which is also the vehicle for addressing complaints against senior management.

There are inter-ministerial Disciplinary Council (DCs) for each ministry in Sana'a. There is also a DC in each governorate, comprising the Deputy Governor, the governorate head of COCA, MOF and MOCSAR, a representative of the judiciary, and a representative or lawyer for the staff member under investigation. The Supreme Disciplinary Council hears complaints against senior management. DCs were set up in

⁸ The following paragraphs describe the institutional oversight mechanisms within the executive branch. For the judicial branch, the Judicial Inspection Unit in the Office of the Attorney General investigates complaints against public prosecutors. The Judicial Inspection Board of the Ministry of Justice investigates complaints against judges. Based on the outcome of these inspections, cases for censure are referred to the Supreme Judicial Council. In the legislative branch, the constitution prohibits members from holding any other public employment (except as a member of the Council of Ministers). There is no specific code of conduct for the House. The Constitutional and Legal Affairs Committee oversees matters of ethics in the House, and decisions to investigate the conduct of a Representative are taken by the House.

Furthermore, the House of Representatives can investigate senior members of the executive branch under the Constitution and Procedures of Indictment and Trial of Senior Officials of the State. The latter lays out the procedures to investigate and try the President or Vice-President in cases of high treason, contravention of the Constitution, and [derogation] from independence or sovereignty of the state. The Prime Minister, Ministers, and Vice-Ministers can be investigated and tried for these three crimes as well as forgery, injury to public funds or receiving personal benefits for public duties, embezzlement, abuse of power, bribery, attempting to influence the judiciary and intervening in elections to influence the outcomes. The investigations are to be carried out by the House of Representatives, which can request assistance of the Attorney General. This law has not been applied since it was passed in 1995.

⁹ The personnel manager is a staff member of the Ministry of Civil Service and Administrative Reform stationed in each administrative unit.

late 1998 by a prime ministerial decree [number]. Their procedures are not yet fully defined. [Description of any activities already taken e.g., number and type of cases by these councils.

]

Irregularities that fall under the section on Crimes Impinging on the Public Office of the Penal Code are referred to the Office of the Attorney General (OAG).¹⁰ Ministries can refer cases; COCA may also report alleged violations uncovered through its audits. Upon receipt of a complaint, the OAG carries out an investigation in cooperation with the concerned ministry. Once completed, the case is either dismissed for lack of evidence or tried in a Court of First Instance. The right to appeal extends to the Supreme Court.

While there is an institutional structure set-up to deal with alleged violations by civil servants, in practice it is not very effective. The process of determining what complaints to investigate is not transparent, investigations are not always autonomous, all procedures are not clearly specified, determination of penalties and enforcement of them can be arbitrary, and there does not seem to be regular reporting and monitoring of the activities and results of the oversight bodies.

On a final note, complaints from the public are supposed to be received and investigated by public prosecutors in the Courts of First Instance. In practice, this does not happen.

B. Dimensions of Public Sector Employment

Organizational Structure

The organizational structure is cumbersome. There are over 80 “departments” which range in size from a ministry such as health (over 30,000 staff) or education (over 150,000 staff) to the Social Security Fund (8 staff) or the Central Authority for Scientific Research (15 staff) (see figure 1). A recent (still very confidential) study analyzes this structure, identifies duplication and overlap of responsibilities, and makes sweeping recommendations for radical change to the structure of the executive branch and its ministerial structure. In addition, the organizational structure within individual ministries is often a spider-web of complexity. Creation of departments often seems to have been based more on employment considerations than functional requirement. Existing structures do not match structures specified in the organic legislation. Nor is there consistency in structures across ministries. Furthermore, despite – or perhaps because of – the complex structures, the chain of command generally passes upward with lower level managers unable to take decisions or be held accountable for activities even as mundane as approval of staff’s annual leave.

¹⁰ The irregularities specified the penal code include bribery, extortion, abuse of power, injury to national interest, malfeasance, and impeding the progress of work for personal gains. Sentences range up to 10 years imprisonment.

Employment Structure and Trends

Until recently, there were no accurate information on the number of civil servants, their qualifications nor their distribution. The only indication of staffing levels came through the budget which provided resources for a specific number of positions. The extent to which the payroll, however, matched actual employment was not controlled. Consequently, there was no accurate information on actual employment levels, distribution of staff, nor qualifications. In 1998, MOCSAR updated all personnel files to ensure that each contained verified copies of key employment documents.¹¹ It then created a computerized employee database from the information contained in these updated files. Systems are being developed to regularly update this employee database, and it will eventually link to the payroll system.

In addition to the lack of basic data, the Government also did not have an explicit employment policy nor any indication nor assessment of future staffing needs. It had, however, instituted a hiring freeze (except for the health and education sector) since [mid-1997]. However, while hiring outside of health and education has been contained, sectoral analysis (see health and education building blocks) still does not support the number and type of hiring that is now planned in these sectors. In October 1999, MOCSAR also prepared a draft statement on future staffing needs. Its focus, however, is primarily on fiscal sustainability of various staffing projections. Its main problems are that it does not simultaneously deal with the need for retrenchment, it envisions a rather slow pace of retiring over-aged employees, it results in staffing levels higher than the existing levels, it will not permit much decompression in wages, and, while recognizing the need for more qualified workers, this is recognized in a general sense rather than from any systematic analysis of staffing requirements. This draft report has recently been distributed to cabinet and is under discussion.

Numbers and hiring. The civil service doubled in size during the 1990s, with most of the increase coming in 1990-1995 (see table 7). There are now about 350,000 civil servants (of which, about two-thirds are in the education sector and 10% in the health sector). In addition, public enterprise employment stands at about 84,000 and military and security sector employment is about 240,000. In aggregate, public sector employment accounts for 4% of the population or 16.5% of the economically active population.

Table 7: Trends in Yemen's Civil Service Employment (thousands)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999e
Number	168	203	235	267	295	322	328	334	336	352
% growth		7%	14%	12%	9%	8%	2%	2%	0%	4%

Civil administration, permanent and contract workers

Source: MOCSAR and WB staff calculations

¹¹ This was a gargantuan task. Previously there were no instructions on what to include in personnel files and some contained a few scraps of paper while others were inches thick. There was no orderly system for file retention, and employee records could be distributed at his ministry's headquarters or governorate office, at the MOCSAR headquarters of governorate branch; or in a ministry or its branch where he may previously have been employed. Finally facilities were inadequate, with piles of paper scattered on the floor.

1996-1998 saw restraint in hiring, in large part because of the hiring freeze in all sectors except education and health. Further, increases in employment in these two sectors was kept to a minimum. However, by 1999 the ability to continue this restraint evaporated. Employment is expected to increase by 4% in 1999 and an addition x% in 2000. No noticeable increase in private sector jobs and several years of limited government hiring led to a large backlog of unemployed secondary school and college graduates. In 1999, these graduates increasingly began to demonstrate demanding jobs in the major urban areas. The Government saw increasing public employment as a safety valve to let off the escalating tensions and dissatisfaction among the unemployed, somewhat educated youth. However, unfortunately, no systems are in place to monitor whether or not the hiring that is taking place is actually for the types of positions (and locations) where teachers and health care workers are in needed.¹²

Distribution by sector. As seen in table 8, over half of all public servants (including the public enterprise and mixed sector) work in the education sector. The largest employers of civil servants are the Ministries of Education; Health; Housing, Construction and Urban Planning; and Agriculture. These four ministries alone employ over two-thirds of civil servants (excluding the public sector). General administrative services amount to about 10% of total employment. The largest employers in this category are the Ministry of Local Administration (7,054 staff), the Tax Authority (3,686 staff), the Ministry of Finance (2,860 staff), the Customs Authority (2,317 staff), the Presidency (2,277 staff), and the Ministry of Civil Service and Administrative Reform (2,204 staff).

Table 8: Distribution of Employment by Sector

<i>Civil admin., public enterprises, and mixed sector</i>			<i>Civil admin, permanent and contract workers</i>		
<i>Permanent and contract workers</i>					
<i>Government Sector</i>	<i>Employees</i>	<i>Percent</i>	<i>Ministry</i>	<i>Employees</i>	<i>Percent</i>
Education (**)	223,368	53.3%	Ministry of Education	165,865	49.3%
Health	33,328	7.9%	Ministry of Health	31,483	9.4%
General Administration(*)	33,006	7.9%	Ministry of Construction	17,143	5.1%
Construction	21,751	5.2%	Ministry of Agriculture	10,310	3.1%
Agriculture and Fisheries	17,522	4.2%	Ministry of Local Admin	7,054	2.1%
Industry and Trade	16,947	4.0%	Top 5	231,855	69.0%
Finance and Real Estate	16,255	3.9%	General Administration (*)	33,006	9.8%
Transport and Telecomm	16,096	3.8%	Remaining	71,381	21.2%
Manufacturing	15,803	3.8%	Total	336,242	100.0%
Electricity and Water	13,620	3.2%			
Social Services	8,350	2.0%			
Minerals	3,297	0.8%			
Hotels and Restaurants	66	0.0%			
Total	419,409	100.0%			

(*) General Administration includes parliament, MOPD, CSO, Ministry of Foreign Affairs, Cabinet, COCA, Duties Authority, MOCSAR Presidency, MOF, Customs Authority, Tax Authority, Duties Authority, and Ministry of Local Administration.

(**) Education sector includes MOE, religious schools, universities, other academic and research institutes.
Source: MOCSAR Employee Database June, 1998

¹² The limited information that suggests recruitment is not in the required categories, e.g., female teachers, teachers in remote locations, special subject teachers, qualified health professionals.

Contract employment. In the past, there were very large number of employees on contract. However, after unity, almost all of these contract workers were regularized. Currently, in the civil administration, public enterprises, and mixed sector, 3.6% of employees are contract workers; the remaining are permanent. In terms of absolute numbers, the sectors employing the most contract workers are education (with many foreign teachers) and health with foreign doctors and nurses (see table 9).

Table 9: Contract Staff in the Public Sector

	<i>Total number of employees</i>	<i>Number of Contract staff</i>	<i>Contract staff as % of total</i>
Education Sector	223,368	8,818	3.9%
Health Sector	33,328	1,367	4.1%
Total Public sector	419,410	14,888	3.5%

Civil admin, public enterprise and mixed sector; *Source: MOCSAR Employee database, June, 1998.*

Geographic distribution. In terms of geographical distribution, on a per capita basis, civil servant are more numerous in the south-east governorates of the former PDR (see table 10). This holds true looking at civil servants in the public administration, in the education sector alone, and in the public enterprise and mixed sector. In terms of absolute numbers, the populous governorate of Taiz accounts for 15% of the civil servants in the public administration that are located in the governorates. The largest three governorate employees account for over one-third of civil servants in the public administration. The central administration (not in the governorates) accounts for about 8% of employment in the public administration overall, only 2% in education sector, and over 23% in the public enterprise and mixed sector.

Skill levels. As seen in table 11, the general level of educational attainment within the civil service is low.¹³ Within the entire public sector, almost 18% of the staff are illiterate (13% within the civil administration). Only 16% hold at least a bachelors degree with an additional 23% holding a at least a secondary school degree (again, the figures are only slightly higher looking only at the civil administration). Qualifications within the health sector are even lower than average, with over 20% of the staff illiterate, and only a third of staff having at least a secondary school diploma.

Job Groups. There are five job groups for civil servants, each divided into two or three classes. This results in a total of 13 job grades. A description of these job groups, and the number of people employed in each, is provided in table 12. While the classification system itself is fairly clear, there are several serious problems. First, the required educational qualifications are very minimal. Second, persons can be promoted from one job grade to the next, simply through years of experience, even if his specific job does not change. This distorts the grading system and means that not all persons in a grade actually have a job responsibility as identified in that grade. The overwhelming majority of civil servants are in the second and third grades. Secondary school teachers are included in grade two, teachers below the secondary level are in grade 3.

¹³ There is no information available on education qualifications for about 10% of the public sector workers. These workers are likely to have lower than average qualifications, and the situation could be even worse.

Table 10: Geographical Distribution of Civil Servants (Permanent Staff)

	<i>Civil Service</i>		<i>Education Sector</i>		<i>PEs and mixed</i>		<i>Total</i>	
	<i>Number</i>	<i>% of Pop*</i>	<i>Number</i>	<i>% of Pop*</i>	<i>Number</i>	<i>% of Pop*</i>	<i>Number</i>	<i>% of Pop*</i>
General	26,332		4,771		18,948		45,280	
Aden	30,333	5.9%	10,808	2.1%	27,211	5.3%	57,544	11.2%
Mahra	2,449	3.9%	871	1.4%	420	0.7%	2,869	4.5%
Abyan	17,381	3.9%	10,080	2.3%	2,210	0.5%	19,591	4.4%
Hadramaut	21,527	2.7%	12,120	1.5%	6,410	0.8%	27,937	3.5%
Lehj	19,798	3.0%	12,124	1.8%	1,219	0.2%	21,017	3.2%
Shabwa	9,373	2.1%	5,421	1.2%	880	0.2%	10,253	2.3%
Marib	4,032	1.8%	2,695	1.2%	790	0.4%	4,822	2.2%
Taiz	44,643	1.9%	36,649	1.6%	4,140	0.2%	48,783	2.1%
Sana'a	18,027	1.5%	11,796	1.0%	3,690	0.3%	21,717	1.8%
Capital								
Hodeidah	25,361	1.3%	20,371	1.1%	7,936	0.4%	33,297	1.8%
Dhamar	17,021	1.5%	14,192	1.3%	1,256	0.1%	18,277	1.6%
Ibb	29,209	1.4%	24,820	1.2%	1,127	0.1%	30,336	1.5%
Mahweet	6,020	1.4%	4,954	1.2%	243	0.1%	6,263	1.5%
Sana'a Gov	25,683	1.2%	21,482	1.0%	1,842	0.1%	27,525	1.3%
Beida	5,836	1.1%	4,190	0.8%	253	0.0%	6,089	1.1%
Saada	5,399	1.0%	4,185	0.7%	594	0.1%	5,993	1.1%
Hajjah	14,615	1.0%	12,129	0.8%	628	0.0%	15,243	1.0%
Al Jawf	1,534	0.7%	892	0.4%	152	0.1%	1,686	0.8%
Total in governorates	298,241	1.7%	209,779	1.2%	61,001	0.4%	359,242	2.1%
Total	324,573		214,550		79,949		404,522	

Permanent staff only.

(*) Population is estimated on 1994 Population census assuming medium fertility and morbidity and uniform growth across governorates.

Source: MOCSAR employee database, June 1998, 1994 population census, WB staff calculations

Table 11: Educational Qualifications

<i>Highest level of education</i>	<i>Civil Service</i>	<i>% of Civil Service</i>	<i>Educ</i>	<i>% of Ed</i>	<i>Health</i>	<i>% of Health</i>	<i>Total, with PE and Mixed</i>	<i>% of Total</i>
PhD	1,023	0.3%	788	0.4%	90	0.3%	1,143	0.3%
Masters	2,298	0.7%	988	0.5%	465	1.5%	3,166	0.8%
Bachelors	52,822	16.3%	36,831	17.2%	4,549	14.2%	60,657	15.0%
Secondary	75,049	23.1%	54,269	25.3%	5,362	16.8%	92,268	22.8%
Dipl after Prep	94,479	29.1%	85,001	39.6%	6,255	19.6%	98,802	24.4%
Prep	8,854	2.7%	3,064	1.4%	1,421	4.4%	14,029	3.5%
Primary	16,763	5.2%	8,574	4.0%	2,866	9.0%	23,805	5.9%
Illiterate	43,650	13.4%	9,965	4.6%	6,907	21.6%	71,988	17.8%
Unspecified	29,635	9.1%	15,070	7.0%	4,046	12.7%	38,664	9.6%
Total	324,573	100.0%	214,550	100.0%	31,961	100.0%	404,522	100.0%

Permanent staff

Source: MOCSAR employee database, June 1998.

Table 12: Classification of Job Groups and Number by Job Group

[needs editing and a few corrections]

<i>Group</i>	<i>Key responsibilities</i>	<i>Sample Titles</i>	<i>Sample Qualifications</i>	<i>Number</i>
Senior Management	Determine goals and general policies of the managerial unit, make decisions, determine methods of achieving goals, coordinate and monitor all workers	<u>Group 1</u>	<ul style="list-style-type: none"> • Years of experience (depending on education) • Charismatic 	809 (0.3%)
		Deputy Minister		
		Deputy Governor	<ul style="list-style-type: none"> • Necessary credentials and work experience • Ability to evaluate work of others • Min: high school 	
		Chairman of the Board		
		<u>Group 2</u>	<ul style="list-style-type: none"> • Years of experience (depending on education) • Charismatic 	475 (0.1%)
		Asst. Deputy Minister		
		Deputy Chair of the Board	<ul style="list-style-type: none"> • Necessary credentials and work experience, • Ability to evaluate work of others • Min: high school 	
		GM of Corporation		
		<u>Group 3</u>	<ul style="list-style-type: none"> • Years of experience (depending on education) • Leadership qualities • Ability to evaluate others • Min: high school 	4,697 (1.5%)
Director General				
Asst. GM				
Supervisory Positions, Administrative or specialized	Assist top mgt and perform specialized jobs (includes secondary school teachers)	<u>Group 1</u>	<ul style="list-style-type: none"> • Years of experience • Min: preparatory school 	9,331 (2.9%)
		Department Manager		
		Specialist Supervisor		
		Research Supervisor		
		<u>Group 2</u>	<ul style="list-style-type: none"> • Years of experience • Min: preparatory school • New: PHD 	20,976 (6.5%)
		Deputy Asst. Manager		
		Specialist		
		Researcher		
		<u>Group 3</u>	<ul style="list-style-type: none"> • Years of experience • New : at least one year diploma after masters 	46,424 (14.4%)
Section Supervisor				
Assistant Specialist				
Assist Researcher				
Executive Occupations	Technical or clerical responsibilities (includes all teachers below secondary school)	<u>Group 1</u>	<ul style="list-style-type: none"> • Years of experience • Min: elementary school 	17,360 (5.4%)
		Technician Supervisor		
		Clerical Supervisor	<ul style="list-style-type: none"> • New: 4 year diploma beyond secondary 	
		<u>Group 2</u>	<ul style="list-style-type: none"> • Years of experience • Min: elementary school 	58,322 (18.1%)
		Technician		
		Clerk	<ul style="list-style-type: none"> • New: 3 year technical diploma beyond 	

		<u>Group 3</u> Assistant Technician Assistant Clerk	secondary • Years of experience • Min: elementary • New: 2 years beyond secondary	129,890 (40.4%)
Craftsman	Perform specific jobs	<u>Group 1</u> Craftsman	• Complete prep school or licensed of practicing, or work experience, ability to read and write minimum	15,554 (4.8%)
		<u>Group 2</u> Assistant Craftsman	• Certificate from void or license to practice or work experience	15,545 (4.8%)
Supporting Services	Perform supporting jobs that do not need past work experience or educational background	<u>Group 1</u> Driver Apprentice	• Years of experience in group 2 job	487 (0.2%)
		<u>Group 2</u> Messenger Custodian Guard	• Capable of doing job • Able to read and write	1,953 (0.6%)
Unspecified	(Due to data sorting problem. In fact all civil servants are in particular group – corrections pending)			82, 699 (25.7%)
				Total 404,522

Permanent staff.

Source: Civil Service Law and MOCSAR employee database. June 1998.

Compensation System

Fiscal weight. In 1999 the wage bill represented 15% of GDP and 36% of total government expenditures (see table 13). This was an increase in the portion of total expenditures over 1998 primarily because of budget compression due to low oil prices. It is, however, troublesome that in the 2000 budget, despite vastly improved outlook for oil prices and oil revenues, wages are still expected to total 35% of a much larger budget. The reasons for this are both the increased hiring as well as substantial wage increases being implemented in the health and education sectors (see health and education building blocks).

Wages as a percent of GDP far exceed all international comparators, which range from a low of 3.8% of GDP in the Former Soviet Union and Eastern European countries to a high of 9.8% of GDP in the Middle East and North Africa region (see table 14).

Table 13: Wage Bill as a % of GDP and Expenditures

	1995	1996	1997	1998	1999	2000
Wage as a % GDP	15%	11%	11%	14%	15%	13%
Wages as a % total exp	55%	32%	27%	29%	36%	35%

Source: WB staff calculations

Table 14: Wage Bill as a % of GDP: International Comparitors

Yemen Avg 1998-2000	MENA	Africa	Asia	FSU/EE	LAC	OECD	Comp*
14%	9.8%	6.7%	4.7%	3.8%	4.9%	4.5%	5.6%

(*) Comparitor countries – group of 9 countries identified in the *Country Assistance Review* as comparator countries for which data is available (Angola, Bangladesh, Burkina Faso, Burundi, Guinea Bissau, Kenya, Niger, Uganda and Zambia).

Source: An International Statistical Survey of Government Employment and Wages, *World Bank Policy Research Working Paper Number 1806, 1997*.

Wage levels. High inflation in the early 1990s, with minimal wage increases, caused a dramatic decline in real wages. By 1996, the average real wage in the public sector was only 15% of the 1990 real wage level. Since 1996, wages have basically kept pace with inflation.

Over the past few years, the government has limited wage increases. [details]. However, it has also introduced a number of special laws for specific cadres of workers (e.g., teachers, health care workers, and university professors). The purpose of these laws is to introduce special (higher) compensation to these cadres of workers. In some cases the rationale is justified (e.g., allowances to attract teachers to remote areas). However, the mechanisms for monitoring implementation are not in place. Furthermore, this trend of bilateral negotiations with individual cadres of civil servants (most recently port

workers) is likely to undermine an orderly revision of the civil service pay scale in a fiscally sustainable manner.

The Teachers Law and the Health Care Workers Law are particularly troubling given the significant portion of civil servants employed in these ministries. For details on the wage increases and the budgetary implications of these wage increases see the health and education building blocks.

Wage levels are very low compared to the private sector. While only indicative, a survey of nine companies (with 150 responses from private sector employees) and 29 agencies (with 841 response from government employees) was conducted in 1996/97 for a study on Yemen's wage and salary structure.¹⁴ The results showed that top management in the private sector received nine times the compensation of their public sector counterparts. This imbalance between private sector and public sector wages is reduced for less senior positions, but even at the support services level, private sector compensation was 2.8 times the public sector level (see table 15). However, in interpreting these results, it is important to recognize that the survey is only indicative, and that in fact the pay discrepancies may be less severe, particularly at the lower levels, if one also considers private sector employment in the informal sector which is at much lower wages.

Table 15: Average Wages by Group compared to Private Sector (1997)

<i>Groups</i>	<i>Avg Gross Salary in Government YR (per month)</i>	<i>Avg Gross Salary in Private Sector YR (per month)</i>	<i>Ratio</i>
Groups			
Group 1 (A,B,C)	17,725	160,764	9.1
Group 2 (A,B,C)	11,815	49,470	4.2
Group 3 (A,B,C)	8,237	33,951	4.1
Group 4 (A,B)	6,618	18,556	2.8
Group 5 (A,B)	6,042		

Source: *Wage and Salary Structure: Final Report*. Team, June 1997, for IDPA project.

Nonetheless, even with these caveats, it appears that by any international comparison, Yemen's public sector compensation system is low and unlikely to be adequate to attract and retain a competent staff. In other regions, the ratio of the average private sector manufacturing wage to the average government salary ranges from 0.6 in Eastern Europe and the Former Soviet Union to 2.0 in Africa. In Yemen, even at the lower grades (group 4), the ratio of public sector wage to private sector wages is only 0.4 (see table 16).

Another indication is the ratio of the average public sector wage to per capita GDP. This ratio tends to be higher in low income countries. The average public sector wage ranges from 1.3 times per capita GDP in Eastern Europe and the Former Soviet Union to 5.7 times per capita GDP in Africa. For a group of comparator countries to Yemen, the

¹⁴ *Wage and Salary Structure: Final Report*, Team, June 1997 for the Institutional Development for Public Administration project.

average is 6.2 times GDP. In Yemen, the average public sector wage is 4 times per capita GDP (see table 16).

Table 16: International Comparitors on Wage Levels

	<i>Yemen</i>	<i>Africa</i>	<i>Asia</i>	<i>EE/FSU</i>	<i>LAC</i>	<i>MENA</i>	<i>OECD</i>	<i>Comp (*)</i>
Avg. gvt. wage to avg manf wage	0.4 (**)	2.0	1.8	0.6	1.5	1.0	1.6	
Avg gvt wage to GDP per capita	4.0 (***)	5.7	3.0	1.3	2.5	3.4	1.6	6.2

(*) Comparitor countries – group of 9 countries identified in the *Country Assistance Review* as comparitor countries for which data is available (Angola, Bangladesh, Burkina Faso, Burundi, Guinea Bissau, Kenya, Niger, Uganda and Zambia). (**) Since no average manufacturing wage data is available, the Yemen figure used is the most understate ratio of public to private wages (Group 4). (***) Yemen figure is ratio of average public sector wage to GDP per capita in 1999.

Source: *An International Statistical Survey of Government Employment and Wages*, World Bank Policy Research Working Paper Number 1806, 1997.

Table 17: Average Base Wages and Total Wages by Civil Service Group

	YR per month		
	<i>Gross Pay</i>	<i>Base Pay</i>	<i>Allowances as % of Gross Pay</i>
Group 1 A	13,099	9,389	28%
B	12,380	9,525	23%
C	10,986	7,816	29%
Group 2 A	9,967	6,789	32%
B	9,005	5,704	37%
C	7,393	5,146	30%
Group 3 A	7,738	4,277	45%
B	6,443	3,908	39%
C	5,550	3,316	40%
Group 4 A	6,174	3,311	46%
B	5,277	3,383	36%
Group 5 A	5,118	2,656	48%
B	4,245	2,879	32%
Other	6,013	3,120	48%

Source: *MOCSAR employee database, June 1998*

Table 17 presents average monthly wages for different groups of civil servants. Teachers below the secondary school level, which fall in group three, would earn gross compensation of between 5,500 YR to 7,700 YR per month. At current exchange rates, this would imply an annual salary of between \$420 to \$580 per year.

Allowances represent a significant portion of total compensation, ranging from about one quarter of total compensation at the highest grades, to upwards of half of total compensation at the lower grades.

In addition to salary erosion and non-competitiveness with the private sector, salary compression is another problem in Yemen. Internationally, vertical compression ratios vary widely from highs of 30 or more to lows of 2, with a mode of around 6 or 7. Yemen's vertical compression (the ratio of the midpoint of the highest civil service payscale to the midpoint of the lowest civil service payscale) is 2.5¹⁵ (table 18). Senior civil servants get only 2.5 times the compensation of lowest ranking civil servants. This creates serious problems in terms of trying to attract the most qualified workers in to the civil service. Compression is only slightly less severe when looking at gross compensation packages rather than just base salaries.

Training

The National Institute of Administrative Science (NIAS) is the primary institution responsible for managerial and administrative training for civil servants. A number of other ministries and administrative units have specialized training centers attached to them. A sampling includes the Ministries of Education, Finance, Agriculture, Health, Information, Industry, Construction, Telecommunications, and Interior; the Central Statistics Office; and the Maritime Affairs Authority. There is no central monitoring nor coordination of training activities. Nor is there effective training evaluation to identify the relevance and cost effectiveness of training.

NIAS has over 158 academic staff, and since its establishment in 1963 has provided short or long courses to over 40,000 individuals. In addition to its main campus in Sana'a, it now has branches in [five] governorates. However, its current focus on providing degree programs (bachelors and masters) in administrative science is not useful. It creates a cadre of new graduates looking for public sector jobs that do not exist. Rather, it would be more beneficial for NIAS to turn its attention to in-service training and courses designed to upgrade the skills of existing staff.

The government's training budget is very modest. It contains resources for three types of training: (i) local training, *i.e.*, training that takes place in Yemen; (ii) training abroad, *i.e.*, short courses and workshops; and (iii) scholarships. Scholarships dwarf the other two categories, representing about 90% of budgeted resources. For non-scholarship training, locally provided training absorbs over 80% of the resources, although there are significant differences across units (see table 19). In the 2000 budget, the units identified in table 19 accounted for about 90% of the government's non-scholarship training budget.

¹⁵ This is slightly different than taking average salaries in the highest and lowest grade, which would result in a compression ratio of 2.2.

Table 18: Vertical Wage Compression

<i>Yemen – base salaries</i>	2.5
<i>Yemen – gross salaries</i>	3.0
Central African Republic	9
Gambia	6
Ghana	10
Guinea	5
Guinea-Bissau	4
Laos	7
Malawi	30
Mauritania	3
Mozambique	9
Niger	15
Nigeria	9
Senegal	6
Sudan	9
Turks and Caicos	4
Uganda	8
Zambia	7
Belgium	5.5
Canada	5.2
France	4.6
Germany	7.5
Netherlands	8.2
United Kingdom	9.8
United States	7.3

Sources: Nunberg, CSR toolkit, WB staff estimates

Table 19: Training budgets

Yemeni Rials ('000s)										
	1996(*)		1997(*)		1998(*)		1999		2000	
	Training	% local	Training	% local	Training	% local	Training	% local	Training	% local
Universities	169,807	8.0%	235,245	21.2%	70,203	100.0%	80,945	98.5%	131,040	90.7%
MOPH	92,581	2.5%	86,258	6.9%	182,092	38.9%	103,000	100.0%	116,450	91.4%
MOE (*)	1,888,775	1.0%	1,897,337	2.2%	45,179	100.0%	54,733	100.0%	109,000	91.7%
MOF & related	13,386	86.9%	9,408	67.8%	12,720	92.4%	38,800	65.5%	46,260	80.5%
Presidency Off.	2,785	37.7%	4,658	46.5%	4,681	70.6%	13,387	37.3%	25,910	36.7%
MOI & related	20,906	3.4%	14,074	12.2%	5,705	29.9%	12,200	42.6%	25,700	61.1%
MOPD	1,869	0.5%	2,244	1.3%	1,976	0.6%	2,100	9.5%	5,150	2.9%
Total Govt							431,426	89.2%	512,738	81.7%
Scholarships							3,854,441		5,417,413	
Grand Total	2,567,814		2,797,400		3,635,447		4,285,867		5,930,151	

(*) 1996-1998 figures are not comparable to 1999 and 2000 figures because scholarships were not disaggregated in the earlier period.

Source: MOF budgets and WB staff calculations

On a government-wide basis, the average (non-scholarship) training budget per staff is about YR 1,400 (US\$8.75) (see table 20). There is a wide difference among different agencies. In universities, for example, there is about YR13,700 (US\$86) per employee. In the Ministry of Education, there is YR 350 (US\$2); however there may be other training resources in the Ministry of Education budget that are classified differently. In any event, the training budget is low, particularly considering the overwhelming large need for skill upgrading within the civil service. Training provisions are not sufficient to meet the requirements of the civil service. Furthermore, there are a large number of staff working in the governorates outside of Sana'a. With proposals for decentralization and increasing the responsibilities and authorities at the sub-national level, resources (and mechanisms) to train staff in these locations are missing. While contracting out of training service to the private sector is legally permissible, the available resources are so limited as not to be very feasible.

Table 20: Training budget per employee for ministries with largest training budget

Yemeni Rials		
	<i>total training budget per employee</i>	<i>Local training budget per employee</i>
Universities	13,736	12,457
MOH	3,420	3,126
MOE	349	320
MOF & related	3,643	2,934
Presidency Office	3,658	1,341
MOPD	3,206	93
GVT AVG.	1,453	1,187

Source: Budget, MOCSAR employee data base, WB staff calculations

Redundancy Issues

The law permits the cancellation of the positions for economic and organizational reasons. If an administrative unit can no longer continue to function without having to lay off some of its staff, it is supposed to first advise the Ministry of Civil Service and Administrative Reform which is supposed to confirm the situation. Before an employee can be dismissed, options for relocation or redistribution are supposed to be explored. There are no mandated severance payments.

Many ministers estimate that large numbers of their staff are redundant (a commonly cited figure is 50%). Although most ministries have not made systematic analysis of redundant workers, it is clear that significant cuts could be made without losing productivity. The recent civil service census, in fact, found that about 35,000 employees say that they are without specific jobs (this also includes political party workers and about 11,000 workers that have been transferred into the civil administration from public enterprises that have been closed). This only represents 8-10 percent of the public sector (depending on whether or not one considers only the civil administration or also the public enterprise sector).

To deal with the labor redundancy problem, legislation was passed (cite reference) to establish a Civil Service Fund (CSF) into which redundant employees would be transferred along with their salaries. In the short-term, there would be no cost savings, since staff continue to receive their salaries. But at least they are physically off the employment roster of the line ministry. This should facilitate restructuring and developing positions and job descriptions for the remaining staff. The aim is for staff in the CSF to be offered buy-out packages so that they are permanently removed from the government payroll. While passing the framework legislation for the CSF was a tremendous political achievement, the time has now come to develop specific operating rules and procedures and to make the CSF operational.

IV. ISSUES IN LOCAL ADMINISTRATION

Yemen has a highly centralized administrative structure. While decisions at the regional level are occasionally taken by local officials, they are generally subject to Central Government¹⁶ approval from the proposal stage, to the allocation of budget resources, to implementation and control. There are no comprehensive, consolidated budgets for governorates or districts. Complete accounting for expenditures within a given region is difficult since some expenditures are executed directly by the Central Government rather than through a consolidated regional budget. Overlaid on this centralized structure, strong tribal areas mean that parts of the country, *de facto*, are in fact very autonomous in their operations.

¹⁶ In fact, officials at the sub-national level are also central government employees. However, in this paragraph, central government refers to decision making and expenditures at headquarters, rather than within the governor's office or within regional, ministerial branch offices.

A. Recent History of Discussions on Decentralization

The tradition of local community development is deep seeded in Yemen, dating to the concept of *da'i* or *'awn*, which is the traditional obligation of individuals and groups to provide mutual assistance for activities of common interest such as flood control and participation in labor intensive works such construction and repair of terraces.¹⁷

More recently, local development activities flourished in the early 20th century in Aden where community groups formed clubs that were both social and development oriented -- utilizing remittances from people who had emigrated from the region. The success of these clubs varied, and many failed in their development activities due to a lack of financial management skills. Activities were more limited in the North because of low education levels and its isolation which limited emigration (a major sources of funds).

By the mid-1960s, however, community development was becoming important. The first Local Development Association (LDA) started in 1963, and a law was promulgated in 1965 that gave LDAs the right to operate freely in all fields. Emigrants -- who wanted to fund education, health facilities, and water supplies -- started to organize collectively at their new residences and remitted resources to their home communities for development activities.

These associations had their hey-day in the 1970s. Official recognition of their importance highlighted their role in empowering local communities, raising funds for local infrastructure, and introducing modernity in traditional villages by enhancing the role of their younger, more progressive members (emigrants and managers of projects). Associations financed their activities through a number of sources: (i) remittances; (ii) zakat (originally 25% and eventually 75% was allocated to local developed activities); and (iii) contributions from community members for specific projects. For the largest investments, special funds could also be requested from the central government.

But by 1983, the character of these local development initiatives was changing. LDAs were placed under the direct responsibility of the central government's Ministry of Local Administration (except for an interim period from 1986-1991 where they were under the stewardship of the Ministry of Interior), and their autonomy was reduced. Provisions were also made for establishing local councils, but for the most part these councils were immediately dysfunctional since the central ministries involved at the local level (e.g., education, health, finance) refused to cede any responsibility to them. In 1991, a Law on Local Administration also gave responsibility over the local councils to the Ministry of Local Administration.

In 1993, following the first parliamentary elections, the three largest political parties all called for movement towards some decentralization. However the nature of

¹⁷ History prior to 1993 draws from [xxx]. History from 1993 is based largely on the discussion in the preface to *The Future of Local Government in the Republic of Yemen: Proceedings of Athawabit Second Symposium held between 28-29 March 1994*. Athawabit Book Three, Sana'a, Yemen: 1995.

and extent of the decentralization that was envisioned varied. The main differences centered on whether or not to elect sub-national officials such as the governor, and the extent to which administrative and financial responsibilities should be devolved.

In early 1994, as part of efforts to bind together the fractures that were emerging in the newly unified country, a “Pledge and Accord Document” was signed. Amongst other things, this document called for governorate rule based on: (i) administrative and financial decentralization; (ii) electing all committees and councils at the governorate level; (iii) shifting the burden of government from the capital to the governorates; (iv) granting each administrative unit full responsibility for services such as education, health, roads, and city planning; and (v) authorizing each administrative unit to find new local resources within a framework that clearly differentiates between local and sovereign revenues. However, immediately after signature, the key parties began to express their dissatisfaction with the contents. The signing of the accord was viewed as an unsuccessful attempt to quell simmering tensions within the recently unified country rather than support and acceptance of the principles set forward. And, in fact, no progress was made in implementing any of the principles of the accord. This background provides important historical context since in Yemen the policy debate surrounding decentralization is still closely tied to issues of preserving and strengthening national unity. Any analysis of appropriate frameworks for decentralization must pay careful attention to this connection.

In July 1994, following the civil war and reconciliation, efforts to increase the responsibilities of governorate and district governments continued. Most notable, the constitutional amendment of September 1994 included four articles that set forth the principles under which local authorities should operate (see Box 1).

By late 1994, the government was drafting new laws on local administration and

Box 1: Constitutional Provisions for Local Authorities

Article (143)

The territory of the Republic of Yemen is divided into administrative Units. The law shall identify their number, borders, divisions and the objective criteria for the administrative divisions. Also the law shall show the way for nominating, electing and selecting their chairpersons, and shall specify their functions and duties with their areas.

Article (144)

The administrative districts ... shall have councils which must be freely and fairly elected, both at the local and governorate level ... They shall propose programs, plans and investment budgets for the administrative district as well as supervise, monitor and audit the agencies of the local authority ... The law shall specify the means for nomination and election of the local authority, its administration and financial resources, the rights and duties of its members, its role in the execution of development plans and programs and all other rules

Article (145)

All the administrative units and the local councils are an inseparable part of the power of the state. The governors shall be responsible before the President of the Republic and the Council of Ministers, whose decisions are obligatory to the districts and councils which must execute them in all cases. The law defines the methods of control over the actions of the local councils.

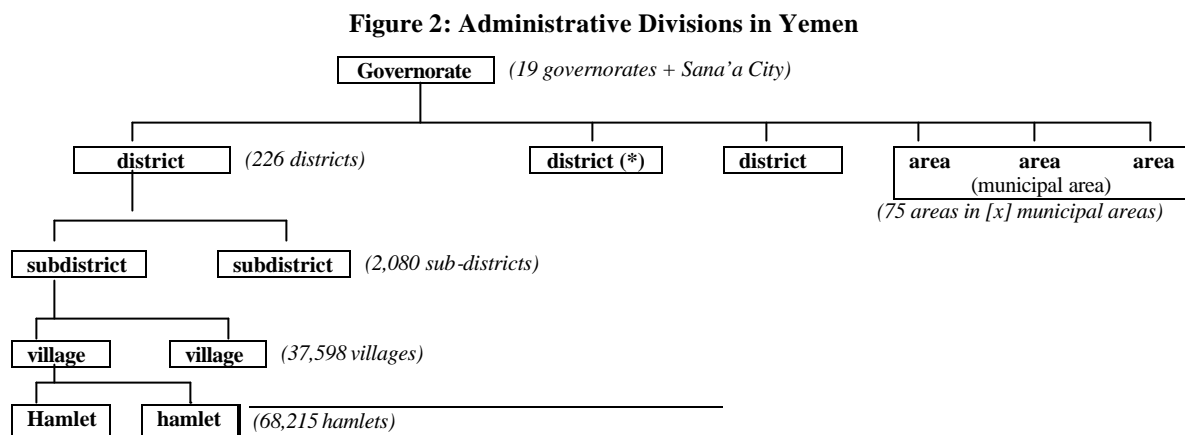
Article (146)

The state shall encourage and sponsor the local cooperative administrations [LDAs] as they are one of the most important means of local development

the election of local councils. A draft law of local authorities has been in and out of the cabinet and the parliament since that time. Despite extensive internal discussion, there is still a lack of consensus on key points such as whether to appoint or elect top governorate and district officials and the extent to which sub-national governments will be given financial responsibilities. However, it appears that there is now renewed pressures to pass a law. The latest version has been under discussion in parliament since November.

B. Existing Administrative Structures

There are currently 19 governorates in Yemen. The city of Sana'a has a special administrative status comparable to a governorate.¹⁸ Within each governorate, municipal regions are divided into areas (*Mantaka*). Non-municipal regions are divided into districts (*Mudiriyah*). Citizens of each district and each area elect one representative to the national parliament. While there is no official central government administrative structure below the district, there are several additional administrative sub-divisions: sub-districts (*Uzlah/Markaz*), villages ([xx]), and hamlets (*Mahalla*) (see figure 2).



(*) In the past, some districts -- called xx -- would provide support for neighboring districts with less capacity.

At the governorate, the governor (an appointee of the President) is the highest political authority of the state. His mandate is to ensure public safety and the security of the state, and to coordinate economic development with technical ministry branch offices that are represented in the governorate. While governors are affiliated with the Ministry of Local Administration, their rank is comparable to that of a minister. The governor is supported by a deputy governor and an office that is staffed through the Ministry of Local Administration.

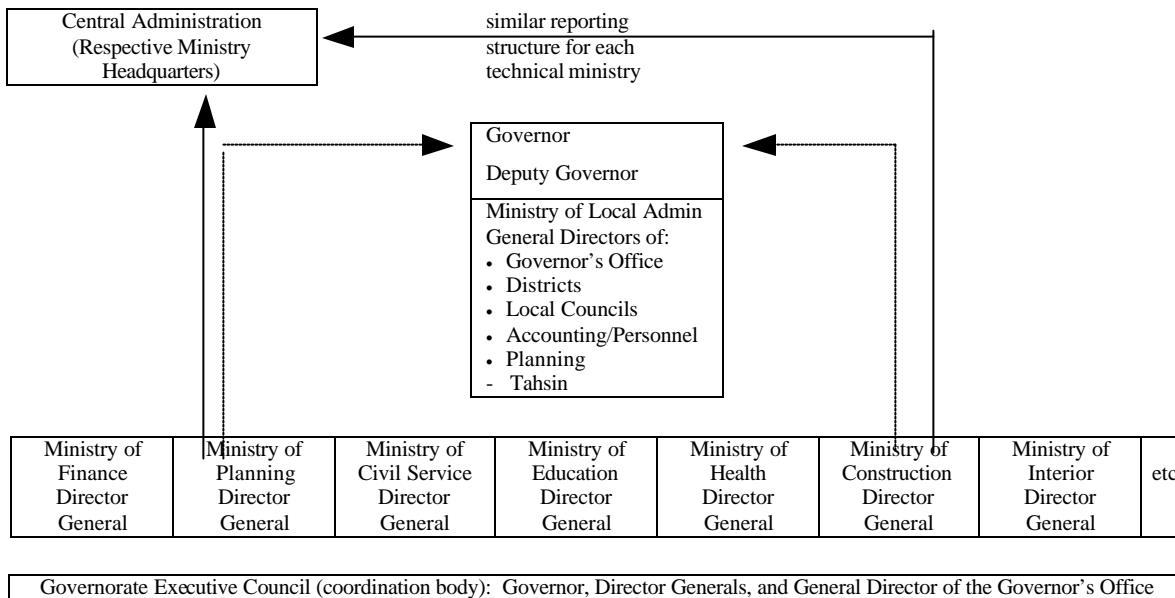
The governor's office (see figure 3) consists of several departments, each headed by a general director. There are departments that (in principle) are responsible for districts, local councils, and the governorate council. Other departments include planning and accounting and personnel, which handles these issues within the governor's office

¹⁸ In the government's administrative structure, the governorates are units within the Ministry of Local Administration. The City of Sana'a is located under the Prime Minister.

rather than in the governorate as a whole. Additionally, there is a department of *tashin* which handles the *Idarat Tashin al-Madina* (city-beautification fund).¹⁹

Many ministries also have branch offices in the governorates, and at times in the districts. The head of a branch office, the director general, reports primarily to his minister. However, he also coordinates with the governor. The extent to which the director general reports to and consults with a governor depends on negotiation, personal affiliation, and the relative strength of the actors involved. The director general is supported by staff from his line ministry. Additionally, representatives from the Ministry of Finance (MOF) and the Ministry of Civil Service and Administrative Reform (MOCSAR) are placed in each branch office. The MOF representative oversees budget execution; the MOCSAR representative serves as a personnel officer.

Figure 3: Governorate Level Administrative Structure



The main mechanism for coordinating activities within the governorate is the executive council. This council is chaired by the Governor, and consists of the heads of all branch offices that are represented in the governorate.

Municipalities in Yemen are departments within the branch offices of the Ministry of Construction. There are currently [x] municipal departments in Yemen. As with other branch offices, the Director General of the Municipality reports primarily to his line ministry. Resources for municipal services (street lighting, cleaning, etc.) are available primarily through Ministry of Housing, Construction and Urban Planning budget

¹⁹ At this point, we have been unable to verify the precise terms of reference for the Department of Tashin, nor the mechanism through which it collects resources, allocates resources, and accounts for the resources that are spent, nor the magnitude of resources handled by this department.

allocations. However, it is reported that the Department of Tashin, in the Ministry of Local Administration, also collects revenues for similar types of services.

On paper, the organization of districts is similar to that of governorates. The District Director (a central appointment made by the Prime Minister in consultation with the Minister of Local Administration and – to some extent – the governor), reports to the Ministry of Local Administration through his direct supervisor, the governor. Like the governor, he represents the state at the district level, and his mandate is public safety, state security, and coordination of all development activities in the district. In practice, the administrative structure at the district level is sparse.

According to the existing legal framework,²⁰ there are also provisions for elected local representatives and local councils. However, in practice, this system is largely defunct. In principle, there should be one local representative for each 500 people. These representatives form a committee in each district. The committee selects a local council. The local council is responsible for formulating and implementing the district's development plan. This entails identification, preparation, and execution of projects. When these council functioned, funding came from three sources: (i) zakat, (ii) central revenues that are distributed to the districts, and (iii) local revenues collected from businesses and on services. The elected committee supervises the local council. Formulation and execution of the recurrent budget rests with the central government's administrative structure. District local councils select among their members representatives to form a governorate level Local Council. Figure 4 outlines the existing legal governance structure.

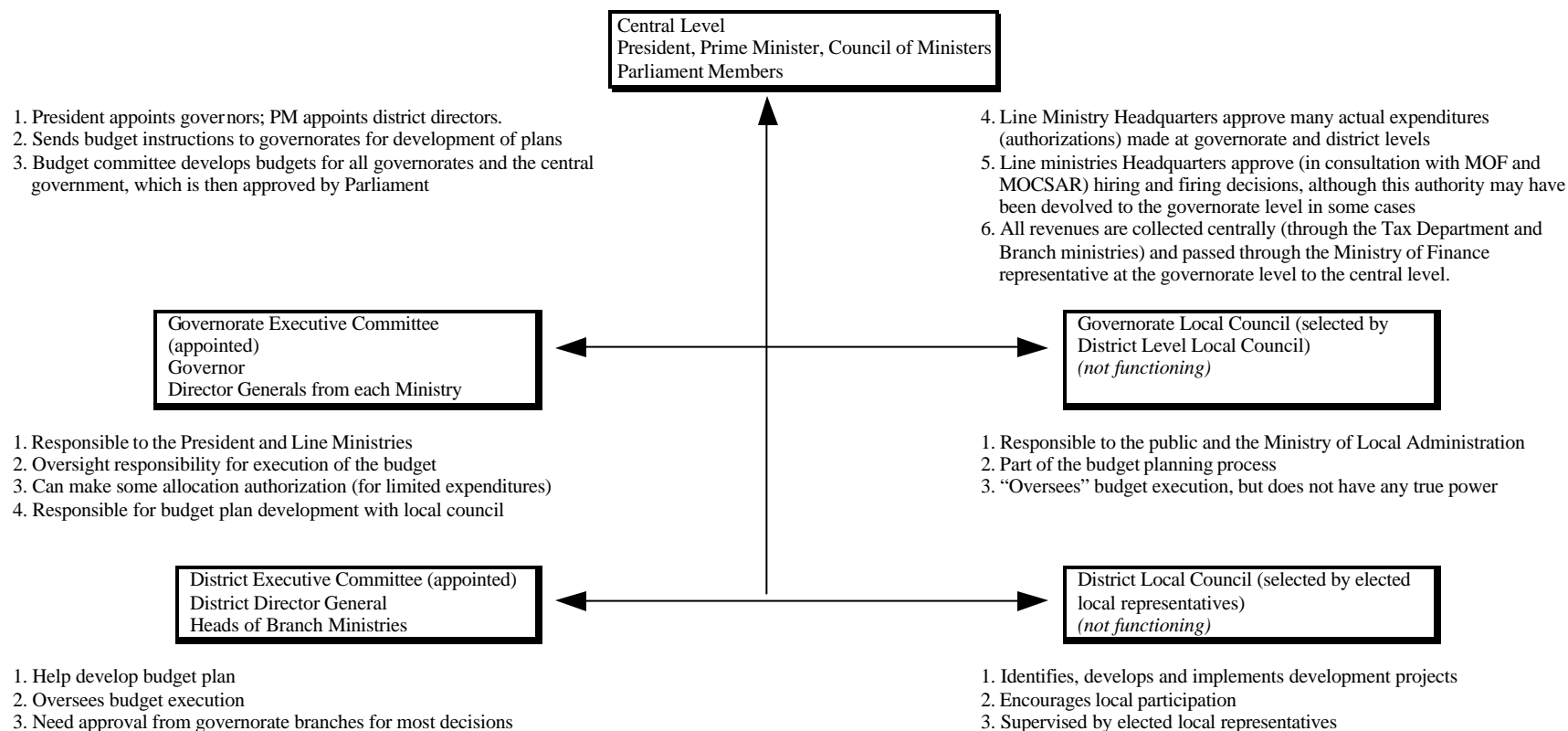
The Ministry of Local Administration (MOLA) is charged with overseeing the governors, MOLA district directors, and elected local councils which in theory are responsible for providing education, water, sewerage, electricity, solid waste disposal, and other necessary services at the sub-national level. MOLA also employs tribal leaders to maintain order in the countryside, where the hostility of local residents makes it difficult for the police to intervene.

Except for its involvement with tribal leaders (many of whom double dip with other ministries), MOLA's actual role in sub-national administration seems to be unclear and ineffective. The local elected councils (carryovers from the YAR and the PDRY), for example, have been largely inactive since unification, due to lack of funds and political will, and thus have not been providing the services for which they are responsible. Some of these services have been provided through projects by community-based associations, but many needs are unmet.

²⁰ The Local Administration Laws of 1952 and 1991, along with the amended constitution of September 1994, are the main elements of the legal basis for sub-national government in Yemen. While there is a legal framework, it is largely not implemented.

Figure 4: Structure of Governance Under Current Law

[TO BE REVISED]



This example uses one governorate and two districts. This is repeated for all governorates and districts. The basic chain of authority is represented by the hierarchy of boxes (district local councils have the least authority). The solid lines represent relationships in theory.

C. The Scope for and Challenges of Decentralization

The proposed law deals with districts and governorates. It does not apply to “municipalities” nor to the level of community organization that has had periods of good success in Yemen. Consequently, it is important to make a clear distinction between “decentralization” as defined in the law and enhanced community participation in the delivery of public goods and services. Informal community involvement will continue to be an important mechanism for popular involvement.

The rest of this section looks at the current patterns of regional expenditures and revenues; highlights some of the key characteristics and problems of the proposed draft law, and touches on some of the implementation issues that government may wish to begin considering.

Current Patterns of Regional Expenditures and Revenues

While Yemen is a relatively poor, largely rural, country with a fast growing population, there is much diversity among the governorates. Table 21 presents selected regional indicators. The five most populated governorates account for 58% of the total population. Also, while average household size is 6.64, it is 37% higher in Al-Jawf and 16% smaller in Aden. The more urban governorates of Sana’a City and Aden have the highest literacy rates (almost double that national average), and the highest percent of the population with at least a secondary education (over triple the average for the entire country).

Table 21: Regional Indicators

<i>Governorate</i>	<i>% of nat'l pop</i>	<i>% of pop illiterate</i>	<i>% of pop with at least secondary ed</i>	<i>average size of household</i>	<i>% of pop in urban areas</i>	<i>1994 poverty rate %</i>
Sana'a City	6.5	29.6	15.4	6.28	100.00	11.2
Sana'a	12.7	63.7	2.3	7.65	5.98	27.2
Aden	3.0	28.3	17.6	5.55	92.00	18.2
Taiz	13.9	51.1	4.7	6.17	19.59	19.8
Al-Hodeida	10.7	67.0	2.9	5.60	36.82	18.7
Laheg	4.0	46.5	6.0	6.55	5.60	18.1
Ibb	12.1	57.2	2.8	6.54	13.89	19.8
Abyan	2.6	45.4	5.2	7.13	21.03	15.2
Dhamar	6.7	64.7	2.4	6.18	11.27	34.9
Shbwah	2.4	54.3	2.6	8.44	11.58	7.3
Hajjah	8.5	69.2	1.8	7.34	9.09	10.2
Al-Baida	3.2	56.5	2.3	7.77	17.61	34.9
Hadramout	4.9	43.9	4.8	7.09	35.68	22.8
Sa'adah	3.3	69.5	2.0	7.23	12.30	3.59
Al-Mahweet	2.5	67.7	2.3	6.58	7.25	33.5
Al-Mahrah	0.4	57.5	3.6	5.85	33.10	20.4
Mareb	1.2	62.0	3.2	8.10	11.82	11.1
Al-Jawf	1.2	69.7	1.7	9.09	16.49	1.72
Nat'l Avg	100.0	56.0	4.6	6.64	25.06	20.1

Source: *Poverty Assessment*, 1996.

These statistics point to at least three fundamental issues that must be carefully considered in the context of implementing a law on local government. First, improving educational standards is critical for the future development of Yemen. Current statistics show that this has not been an easy goal for the central government to achieve. Continuation of such effort is of utmost urgency, and any law on local government must be thoughtfully implemented in the context of the urgency to improve educational standards. Second, the education statistics suggest a lack of qualified workers to support newly defined roles of local administration, which will include jobs in public accounting, audit, service delivery and maintenance, and public budgeting. The lack of qualified works may be even more serious in some governorate than in others. Finally, there is great economic and demographic diversity among the governorates. These differences magnify difficulties in producing consistent public services among governorates. The central government may be able to mitigate some of the differences by developing an adequate system of grants and other transfers. It will also have to play a key role in setting and monitoring standards.

Table 22: Regional Expenditures (per capita) YR

<i>Governorates</i>	1996	1997	1998(*)	1999	2000	2000 <i>non-wage</i>
Sana'a City	2,080	2,255	2,311	2,542	3,135	1,248
Sana'a	1,446	1,577	3,343	4,065	3,747	1,124
Aden	10,943	11,489	14,480	11,405	13,819	2,711
Taiz	2,290	2,692	3,250	3,493	4,259	1,085
Hadhramout	4,144	4,754	5,121	5,160	7,111	2,295
Al-Hodeidah	1,541	1,803	1,920	2,222	2,648	552
Lahej	4,136	4,741	5,912	5,398	6,872	2,098
Ibb	1,619	1,896	2,421	2,576	3,388	1,026
Abyan	6,039	6,469	7,844	7,313	9,551	2,960
Hajjah	1,008	1,200	1,626	1,796	2,434	639
Dhamar	1,737	2,091	2,418	2,555	3,274	635
Shabwah	3,204	3,977	3,963	4,280	5,200	2,130
Al-Mahrah	9,240	10,721	12,315	19,388	21,578	15,226
Sa'adah	1,462	1,516	1,792	2,015	3,407	1,804
Albiedah	1,474	1,792	2,009	1,981	2,500	748
Al-Mhweet	1,486	1,866	2,487	2,840	3,462	904
Mareb	2,107	2,825	3,613	3,312	4,100	1,584
Al-Jawf	1,143	1,420	704	1,170	1,239	385
Amran	-	-	74	237	2,540	645
Al-Dhalea	-	-	153	451	3,859	1,344
Weighted Avg	2,335	2,660	3,017	3,150	4,076	1,212

Population numbers were derived from the 1994 population census assuming medium fertility, medium morbidity and uniform growth across governorates. There is a break in the series in 1998. Two new governorates were created in that year. Limited budget was provided in that interim year. Hence, the 1998 figures are not comparable. 1996 is comparable with 1997; 1999 is comparable with 2000.

Source: MOF budgets, 1994 population census, WB staff calculations

Per capita expenditure figures also show disparities among the governorates (see table 22). At the outset, it is important to note that these figures and the analysis that follows do not include central government expenditures in the governorate, nor off-budget local initiatives. In the 2000 budget, al-Mahra has the highest per capita expenditures, but this is an anomaly because of [identify the budget line – probably one-off large investment expenditure related to port/border]. Generally, the south and eastern governorates of Aden, al-Mahra, Abyan, Lahej and Abyan have the highest per capital expenditures. While one might think that this is because of the proportionately larger number of civil servants in these formerly PDR governorates, they also have the highest non-wage, per capita expenditures. However, an important caveat, as mentioned above, is that available data do not include centrally budgeted spending that takes place within the governorates. Consequently, the actual per capita regional expenditures is unknown.

Nonetheless, based on the data available in table 22, in 2000 al-Mahra, the governorate with the highest spending per capita (mostly because of [xx]), spends over 17 times that in Al-Jawf. Removing the highest and lowest outliers, at the next tier, Aden spends almost 6 times what is spend in Hajja, both in terms of total spending and non-wage spending. Removing the outliers, overtime there seems to be a slight reduction in disparities in spending per capita, particularly in 1999 and 2000 (see table 23). However, the lack of information on total spending in each governorate would make such conclusions very tenuous.

Table 23: Disparities in per capita Regional Expenditures

	<i>Ratio: Highest spending to lowest spending</i>	<i>Ratio Excluding top and bottom outlier</i>	<i>Ratio Excluding top and bottom two outliers</i>
1996	10.8	8.1	4.2
1997	8.9	7.5	4.3
1998	20.6	7.6	4.3
1999	16.6	6.4	3.7
2000	17.4	5.7	3.0
2000 non-wage	39.5	5.7	4.3

Source: table 22 and WB staff calculations

A simple correlation between expenditures per capita (and non-wage expenditures per capita) and the percent of population in poverty show that poverty is not significantly correlated with expenditures (coefficient = .05; and coefficient = .00, respectively). Expenditures are not equalizing. To fully equalize expenditures by allocating enough non-wage resources to all governorates to enable them to spend at Aden's level (keeping the level of transfer for wages constant at the current level), the central government would have to transfer resources equivalent to approximately 4.7% of GDP.

Table 24 shows regional per capita spending for health and education. Discrepancies in per capita education expenditures are lower than overall disparities. On a per capita basis, Abyan spends 6.1 times Al-Jawf, and at the next tier, Al-Mahra spend 2.9 times Sa'adah. Health expenditures, on the other hand, show greater regional disparities. Al-Mahra spends 17 times Hajjah, and even at the next tier, Aden spends 10.5 times Amran. A simple correlation between expenditures per capita on education and literacy rates (and secondary school enrollment) show that educational attainment is

positively (and significantly) correlated with expenditures (coefficient = .50 and coefficient = .31, respectively.). Governorate expenditures on education have some predictive power of educational attainment, but they are not equalizing (in this sense that less education governorates have a greater need to expand educational coverage).

Table 24: Regional Expenditures (per capita) on Health and Education for 2000 (YR)

<i>Governorates</i>	<i>Education</i>	<i>Health</i>
Sana'a City	1,630	418
Sana'a	2,280	278
Aden	4,260	2,328
Taiz	2,943	381
Hadhramout	3,289	804
Al-hodiedah	1,864	269
Lahaj	3,946	1,025
IBB	2,400	261
Abyan	4,955	1,142
Hajjah	1,823	146
Dhamar	2,460	323
Shabwah	2,459	780
Al-maharah	4,716	2,544
Sa'adah	1,608	244
Albiedah	1,705	360
Al-Mhweet	2,644	253
Mareb	2,283	629
Al-Jawf	807	243
Amran	1,997	222
Al-Dhalea	2,704	411
Weighted Avg.	2,416	445

Source: 2000 budget and WB staff calculations

However, at the risk of repetition, it is worth pointing out one more time that available data does not present a full picture of regional expenditures. Governorate level expenditures will amount to only 19% of the total current expenditures and 22% of total capital expenditures in 2000 (see table 25). And there is no information readily available to determine the portion of central government expenditures that are made in the governorate nor its distribution. It is interesting to note, however, that for the three ministries with major service delivery mandates at the sub-national level (health, education and construction) between 40% to 60% of the 2000 budget is allocated to the governorates, considerably higher than government wide averages (see table 26).

Table 25: Governorate Expenditures Relative to Total Public Expenditures by Chapter for 2000

<i>Expenditure Category</i>	<i>Total Budget ('000 YR)</i>	<i>Governorates ('000 YR)</i>	<i>Governorate exp as % of total</i>
Chp 1 Current Exp.	313,565	58,903	19%
Chp 2 Capital Exp.	72,641	15,634	22%
Chp 3 Gov. Loan	17,337	0	0%
Chp 4 Debt Payment	10,799	0	0%
Non Classified	7,907	0	0%
Total	422,249	74,537	18%

Source: 2000 budget and WB staff calculations

Table 26: Governorate Expenditures Relative to Total Public Expenditures for Main Ministries

	<i>Total Budget (m YR)</i>	<i>All Governorates (m YR)</i>	<i>Governorate expenditures as % of total</i>
Health	18,422	8,151	44 %
Wages	8,029	3,459	43 %
Other Recurrent	6,520	3,269	50 %
Capital	3,150	0	0 %
Education	76,586	44,202	58 %
Wages	55,642	38,414	69 %
Other recurrent	14,376	3,023	21 %
Capital	6,568	2,765	42 %
Construction	18,899	11,715	62 %
Wages	2,176	1,711	79 %
Other Recurrent	699	349	50 %
Capital	16,024	9,655	60 %

Source: 2000 budget and staff calculations

Examining revenues collected in governorates also points to several issues that will need to be considered in implementing a law on local government. First, there are significant differences in the per capita revenue raising capabilities across governorates. This is expected for certain revenues (*e.g.*, customs) and does not reflect disparate revenue raising capacity. However, looking at tax income, the regional differences are enormous. In terms of tax revenue, Aden collects 90 times more per capita than Al-Jawf. At the next tier, on a per capita basis Sana'a City collects 62 times more than Amran (see table 27). Part of this, no doubt, is due to differences in the levels of effort to collect taxes, but it also reflects real and significant differences in revenue raising capacity. Second, in the proposed law of local authorities, own resources provided to local governments are zakat and a variety of fees. Customs and tax revenue remains solely revenue of the center, and this amounts to over 85% of the revenues collected in the governorates. Own resources, if not substantially increased, will not go far in terms of financing the very substantial responsibilities, notable health, education and municipal services, that are envisioned to be transferred to the local level. A substantial transfer program will be needed. However, under the current draft law, no such transfer program is provided for. Local revenues are to be used to finance development expenditures, while the central government will continue to finance current expenditures. The center may also continue to finance some development expenditures in the governorates.

About 22% of all revenues are collected at the governorate level. However, this low figure is primarily a result of the fact that most oil receipts are collected centrally under the central appropriations sub-heading. For customs, taxes, and duties, more than 80% is collected by governorate offices. It is unclear why only 29% and of fees collected by the ministry of education and 16% of the fees collected by the ministry of health are from regional offices (see table 28).

Table 27: Expected Per Capita Regional Revenues for 2000

<i>Governorates</i>	<i>All revenues</i>	<i>Customs</i>	<i>Tax</i>	<i>Duties</i>	<i>MOHCUP</i>	<i>MOE</i>	<i>MOPH</i>	<i>MOI</i>	<i>Passport</i>	<i>Civil Regist.</i>	<i>MOLPA</i>
Sana'a City	10,896	568	8,918	467	609	63	22	53	-	20	-
Sana'a	1,457	103	611	110	21	81	8	48	176	9	2
Aden	22,953	8,878	10,094	382	1,640	141	82	94	147	37	3
Taiz	4,685	964	3,055	127	306	101	14	19	24	11	1
Hadhramout	3,990	753	1,744	84	82	97	30	62	57	18	10
Al-hodiedah	16,011	8,613	6,966	138	135	62	12	22	16	7	1
Lahaj	1,023	-	646	18	37	116	26	31	-	14	6
IBB	963	0	488	143	214	75	10	12	-	5	1
Abyan	2,194	-	1,198	49	42	149	39	20	-	19	9
Hajjah	2,614	1,103	1,150	248	9	55	8	16	1	2	1
Dhamar	774	0	473	162	18	74	12	18	-	3	1
Shabwah	1,065	-	533	25	37	67	17	25	7	8	14
Al-maharah	14,466	7	6,000	38	7,506	96	69	39	35	20	38
Sa'adah	1,192	1	760	304	16	51	9	25	9	5	1
Albiedah	558	0	306	125	18	54	11	24	-	5	2
Al-Mhweet	613	-	280	199	16	76	12	8	-	6	2
Mareb	924	0	686	43	32	70	23	32	-	5	3
Al-Jawf	157	-	112	7	6	21	4	2	-	1	1
Amran	377	-	144	155	8	52	10	5	-	-	0
Aldhalea	529	-	209	29	24	64	23	11	-	-	1
Total	4,759	1,499	2,556	164	207	76	16	27	25	9	2

Source: 2000 budget and staff calculations

Table 28: Expected Governorate Collected Revenue Relative to Total Revenues for 2000

<i>Revenues</i>	<i>Total Revenues (m YR)</i>	<i>Governorates (m YR)</i>	<i>Governorate revenue as % of total</i>
Total Revenues	3,889,530	870,878	22%
Customs	287,425	274,414	95%
Tax	588,366	467,741	79%
Duties	30,113	30,079	100%
MOHCUP	51,845	37,793	73%
MOE	47,470	13,948	29%
MOPH	18,587	2,995	16%
MOI	10,401	4,869	47%
Passport	13,502	4,520	33%
Civil Registration	1,890	1,624	86%
MOLPA	569	428	75%
Central Appropriat. *	2,683,617	-	0%

(*) primarily oil

Source: 2000 budget and staff calculations

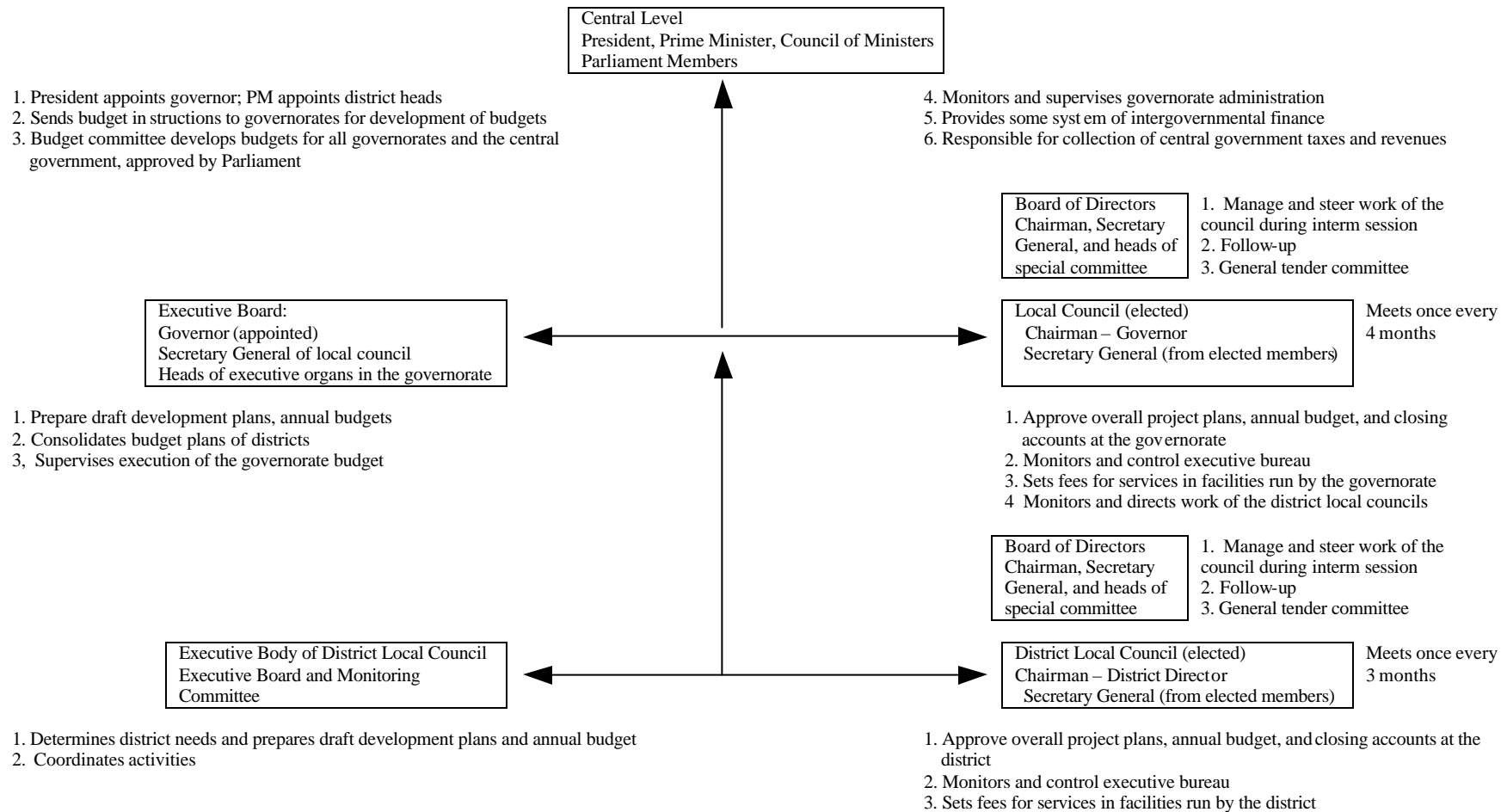
The Proposed Law

[A Couple of PARA on the Main Features of the law

Figure 5.]

Figure 5: Structure of Governance Under Draft Law of Local Authorities

[TO BE REVISED]



This example uses one governorate and two districts. This is repeated for all governorates and districts.

Conditions for Maximizing Benefits from Decentralization

Based on international experience, some benchmarks have been identified that increase the chance for successful decentralization. Few countries possess every requirement, and the importance of each depends on country specific conditions. Nonetheless, in general, the closer to attaining the benchmarks, the better the chance for successful decentralization. Table 29 presents some of these benchmarks and describes the situation in Yemen as proposed in the current draft law.:

Table 29: Conditions that Maximize Benefits of Decentralization

<i>Benchmark</i>	<i>Situation in Yemen Under Draft Law</i>
Elected local councils	Locally elected councils at district and governorate
Locally appointed chief officials	Governors and District Directors appointed centrally
Locally approved budgets	Local councils develop budgets, but budget finalized and approved at the center.
Absence of central government mandates for local government employment and salaries	Central control of pay scale and employment practices
Local government control over some revenue sources	Local governments to have limited revenue sources; some autonomy over relatively small revenue sources (charges and fees)
The grant system is transparent and local governments understand its requirements	Clear, but unlikely to be adequate. Current expenditures continue to be financed centrally, development expenditures financed from the local budget
Expenditure assignment is clear	No. Central level authorities limited to drawing general policies, enactment of regulating by-laws, oversight, training, and based on request of local authorities, implementing projects that LA unable to implement, and projects of general nature. Local levels shall “construct, equip, and manage all development project and all services designated. However, nothing is designated, and no clarifications are made as to what specifically will be governorate and district level responsibilities.
Local governments have adequate books of account	Currently there is a complicated paper trail to keep track of expenditures, which do not match cash flow and may not match budgeted expenditures, there is no national treasury, and capacity of staff is limited. Nothing in the proposed law changes this situation, and it may be worsened with increasing responsibilities at the sub-national level.
Central government has capacity to monitor process of decentralization	Currently no fiscal analysis unit. Required data, technical capacity, and manpower lacking.
Enough skilled labor	Access to qualified manpower particularly acute in some governorates and at the district level.

Source: Benchmarks from Bahl, 1995.

Phasing Implementation

The draft law allows for the phasing in of the requirements of the law. Specifically, the Cabinet may decide whether to postpone delegating some of all of the powers and authorities to specific governorates or districts. If there is seriousness to implement the law when it is passed, then discussions should begin now on key policy decisions.²¹ The government has several options on how to decentralize expenditure and revenue responsibilities.

First, it could *implement the full system throughout the* entire country (three levels of government--central, governorate, district) with all of the specified duties and revenues associated with each level of government. Advantages of this approach include:

- May be perceived as the most equitable treatment--allowing every jurisdiction the same possibilities for some autonomy.
- Retains the current structure of allowing voting at the district and governorate level.
- May spur public involvement quickly.
- Central government may de facto support the service provision (or some service provision) in some districts and governorates to prevent a true breakdown of the system; the reality may be that some governorates will rely on the central government for many years (which appears to be the case now).
- Since services in some governorates and/or districts are poor under the current law, the local population may be resigned to the situation and not blame the locally elected officials.

However, there are disadvantages that include:

- If all levels of government across the country are “not ready” to deliver local goods, the system may lose credibility immediately.
- If revenue sources are not adequate to support expenditures, the system may also lose credibility.
- The structure may encourage criticism of the central government for “off-loading” expenditure responsibilities.
- Since services in some governorates are poor under the current law, the local population may be resigned to the situation thus not realizing potential benefits of the decentralization process.

Second, the government could implement all revenue and expenditure responsibilities in districts and governorates in a subset of governorates. However, if this approach is taken, it will be important to also include a plan for when other governorates would come into the new system. This plan could be based on passing some criteria regarding accounting standards or per capita own-source revenues. Alternatively, the

²¹ The question of seriousness and motivation is important because having the law is not enough. Currently, there are laws on local government that not implemented.

phase-in could be based on other criteria such as population density with more urban governorates going first. In such a case, it would be useful to simultaneously provide training in other governorates. This could help to mitigate hard feelings of those governorates that are not immediately brought into the process and help these governorates overcome their shortcomings with respect to their abilities to support the implementation of the law. Local councils in the governorates coming into the process early could become trainers while those coming in later could be used to help develop the training needs (offering priorities and suggesting trainees). Main advantages of this approach include:

- A pilot or phase-in approach minimizes the exposure of the government and the country at large to glitches in the law.
- More advanced governorates and districts will likely have better infrastructure to support the decentralization process (including service delivery, budgeting, revenue mobilization, etc.).
- Specifying a training plan is a positive step toward solving the problems of certain governorates. The training should be aimed at: public sector management, accounting, budgeting, and service delivery.

Disadvantages, however, include:

- It may appear inequitable to allow some jurisdictions initially to have more autonomous control than others.
- The mechanism to determine which governorates are decentralized first, second, etc. may be difficult to develop. If criteria like population are used, rural governorates may feel slighted. If it is a skill like accounting standards, it may take a long time for some governorates to attain acceptable standards.
- Legally, it may be difficult to follow a phased approach.
- It is costly for the government to have two separate systems running at once.

A third option is for the government to implement of all revenue and expenditure responsibilities in some or all of the governorates, leaving implementation at the district level to a later stage. Advantages include:

- A pilot approach minimizes the government's exposure.
- A phased-in approach will help to build local infrastructure to support true decentralization. In particular, the districts can learn from the governorates about budgeting, financial management, tax collection, and public service delivery.

Disadvantages include:

- Once governorates get most of responsibilities, they may be unwilling to eventually decentralize further.
- Implementation of the law becomes onerous--which district responsibilities should the central government keep; which should go to the governorates?
- Objective criteria would need to be developed to assess a district's readiness to be brought under the law.

- Political unrest may be intensified by district governments clamoring for decentralized powers.

Any of these options could be adjusted by phasing-in specific revenue or expenditure responsibilities.

Furthermore, more attention needs to be paid to clarifying responsibility assignment and thinking through the adequacy of the proposed financing mechanisms. Additional attention also needs to be paid to how the central government will monitor and assist local authorities. The process of decentralization in Yemen should be carefully and closely monitored so that the central government has some warning of impending fiscal difficulties of local governments. In particular, the central government should have the capacity to monitor the execution of local government budgets in the role of an objective, knowledgeable party. This monitoring process should be formalized so that it does not appear that the central government is “spying,” but rather is performing an *ex post* analysis of budgeted and actual expenditures. The monitoring of the process by the central government should also extend to the success of the intergovernmental revenue system. It is very important that the central government be able to determine whether or not the goals of their system of intergovernmental transfers are being met and whether alternative mechanisms would be more effective over time. All of this requires fiscal analysis capabilities that currently does not exist. Finally, the central government should be in a position to offer technical assistance to the local governments in terms of training for service delivery, budgeting, development of economic development plans, and legal structures. Training requirements will be extensive, but there are currently no resources or institutional arrangements that would support training on the needed scale.

The above is not exhaustive. It simply points to some of the major policy decisions that need to be made. After that, implementation regulations will need to be developed to guide the process. In the first instance, crucial steps for moving forward include:

- Passing a clear law.
- Deciding on the format for the implementation.
- Establishing a central government office to monitor the decentralization process including a unit to provide analysis on intergovernmental fiscal relations and a unit capable of auditing budget execution at the various levels of government (for central government priority expenditures) and training for such an office and basic computerization. Local governments (especially at the governorate level) should be encouraged to develop such units as well. The central government could support this development by providing some assistance in data development and fiscal analysis training.
- Analyzing local government revenue capacity and expenditure needs.
- Defining the depth of implementation (all expenditures and all revenues to all governorates and districts or a phasing-in process).
- Ensuring that the budget structure (classification of revenues and expenditures) is consistent among levels of government and provides information about revenues and expenditures by type at the three levels of government.

- Defining the level of government responsible for personnel policies for civil servants (*i.e.*, hiring, firing, and evaluation of work performed).
- Analyzing and defining training needs, and developing a training plan.
- Developing a plan for budget preparation training (short-term) for the central government and all or some governorates.
- Developing a plan for a fiscal information/fiscal management system.

ANNEX – PREM INDICATORS

The following are PREM indicators that touch on aspects of Public Sector Management

Institutional Quality					
	Year	Value	Refer.	Rating	Change
ICRG Law and order	1998	3.0	3.2	B	S
ICRG corruption	1998	3.0	2.5	B	S
TI corruption	..	..	3.0	..	..
ICRG bureaucratic quality	1998	1.0	1.4	B	S

ICRG Law and Order, (0-6) bad to good, International Country Risk Guide (ICRG)

ICRG Corruption, (0-6) bad to good, International Country Risk Guide (ICRG)

TI corruption, (0-10) bad to good, Transparency International web site

ICRG Bureaucratic quality, (0-4) bad to good, International Country Risk Guide (ICRG)

Macroeconomic & Fiscal Policies					
	Year	Value	Refer.	Rating	Change
GDP per cap.ann. ave.growth rate (%)	1996-98	1.2	2.0	B	D
Inflation (%)	1998	8.5	17.5	A	D
Real interest rate (%)	1998	4.8	a/	B	n.a.
Gross national savings/GNP (%)	1997	26.5	17.6	A	I
Current account bal./GNP (%)	1998	-5.5	-2.8	C	D
Fiscal balance/GDP (%)	1998	-5.0	-4.0	B	D
Central govt. expenditure/GDP (%)	1998	34.9	32.2	B	I
Tax revenues/GDP (%)	1998	27.5	a/	B	n.a.
Public sector debt/GDP (%)	1997	60.4	58.3	B	I
Govt. debt interest/revenue (%)	1996	9.4	19.1	B	D
Aid dependence (% of GNP)	1996	5.6	10.3	B	D

Source: SIMA data base (LDB central)

Private Sector Framework					
	Year	Value	Refer.	Rating	Change
Private investment/GDP (%)	1998	15.1	16.0	B	I
Stock market capitalization/GDP (%)	..	..	29.0	..	..
Govt. intervention index (Heritage)	1998	4.0	2.9	C	S
Regulation index (Heritage)	1998	4.0	3.6	C	S
Wage & price control index (Heritage)	1998	3.0	2.9	B	S

Private investment (% of GDP) , SIMA data base (LDB central)

Stock market capitalization (% of GDP), SIMA data base (LDB central)

Government intervention index, (5-1) bad to good, The Heritage Foundation, December 1998

Regulation index, (5-1) bad to good, The Heritage Foundation, December 1998

Wage and price control index (5-1) bad to good, The Heritage Foundation, December 1998

Rating: A = High outlier, B = Medium, C = Low outlier (shaded cell).

Change : I = Improvement, S = Stationary, D = Deterioration. For most indicators, current data compared with the previous period, e.g. 1998 vs. 1997, or 1996-98 vs. 1995-97.

Rating Method:Comparison with mean for all borrowers

- B = +/- 0.5 standard deviation from the mean for all borrowers
- C = > 0.5 standard deviation worse than the mean for all borrowers
- A = > 0.5 standard deviation better than the mean for all borrowers

Regressions on GNP per capita

- B = actual value within +/- 0.5 standard deviation from the predicted value
- C = actual value > 0.5 standard deviation worse than the predicted value
- A = actual value > 0.5 standard deviation better than the predicted value

Inflation rates (%)

- B = 10 - 25
- C = More than 25
- A = Less than 10

Real interest rates (%)

- B = 2.0 - 3.5, 4.5 - 6.0
- C = Less than 2.0 or more than 6.0
- A = 3.5 - 4.5

Current account balance (% of GNP)

- B = -3.5 to -2.0
- C = Less than -3.50
- A = More than -2.0

Tax revenue (% of GDP), Life expectancy gap

- B = +/- 0.5 to 1.0 standard deviation from the mean
- C = > +/- 1.0 standard deviation from the mean
- A = up to +/- 0.5 standard deviation from the mean

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