

# YEMEN ECONOMIC UPDATE

Yemen Economic Update is a quarterly report that consists of five sections. The first section highlights major economic and policy developments. The second section provides a special topic on the Yemeni Economy. The third section summarizes new legislation, publications, data, conferences, and donor activities in Yemen. The fourth section describes World Bank operations in Yemen and summarizes ongoing operations. The fifth section gives detailed information on World Bank publications and provides contact information.

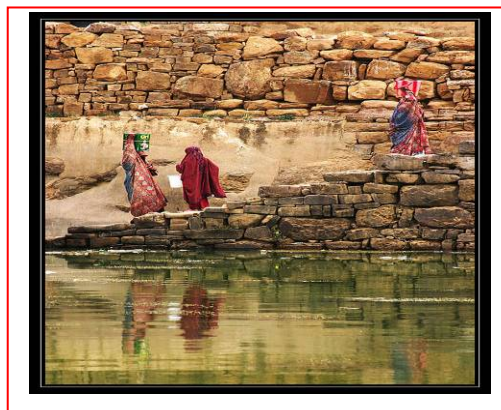
SPRING 2006

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The World Bank Group  
Sana'a Office



## SUMMARY:

1. *Yemen's macroeconomic outcomes show improvement, but long-term concerns continue.* The year 2005 turned out to be better than expected. Improved GDP growth near 4 percent, smaller overall fiscal deficit at 2.4 percent of GDP, and a continued current account surplus were the favorable macroeconomic outcomes. Inflation, kindled by the raise in petroleum prices in July 2005, is a cause for worry. If inflation persists at 20 percent—well above the 12 percent average of the past three years—it could undermine macroeconomic stability. Greater use of interest rate instrument and tighter fiscal management would aid in controlling inflation. Government expenditures reached 40 percent of GDP in 2005 and are projected to continue at the same rate in 2006. Subsidies to petroleum products are projected to exceed 12 percent of GDP in 2006 despite the 60 to 120 percent increase implemented in July 2005. The implementation of the new national wage strategy will endanger fiscal stability unless it is implemented in a budget-neutral fashion.

**THE GOVERNMENT STARTS URGENT ACTION PROGRAM TO IMPROVE GOVERNANCE**

- 2. The government has responded to the adverse decisions from the donor community by starting a six-month action program to improve governance in Yemen.***

*The action program—National Agenda for Reform--has been formulated by the Government in collaboration with the donor community and adopted by the Cabinet in early January 2006.* The four main policy areas of the program are (i) establishing rule of law, (ii) fighting corruption, (ii) improving business-enabling environment and government effectiveness, and (iv) increasing political participation.. The new Cabinet which came to power on February 11, after a major reshuffle, has been actively involved in the implementation of the action plan. The new Cabinet includes fifteen new ministers out of 35 members.

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**II. MACROECONOMIC DEVELOPMENTS AND OUTLOOK**

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*High oil prices improve outcomes*

- 3. The year 2005 turned out to be better than expected because of high oil prices.*** GDP growth improved to 3.8 percent, the fiscal deficit is smaller at 2.4 percent of GDP, and the current account balance continued to have a surplus, at 2.6 percent of GDP. The surge in inflation following the rise in administered prices of petroleum products is continuing at a high 20 percent annual rate

*Improvement in Growth Rates*

- 4. The slide in the GDP growth rate that started in 2002 was arrested in 2005 because of high oil prices.*** Oil production did not fall as much as feared at the beginning of the year. The high oil prices, set at US\$51.5 per barrel, provided the incentive for oil companies to produce more oil. Higher fiscal expenditures, supported by a 45 percent jump in oil revenues, helped to marginally improve the non-oil-sector GDP growth in 2005. With population growth at a 3 percent annual rate, per capita GDP growth continues to be meager (Table 1). The outlook for 2006 continues to be lackluster; another round of fiscal expansion is not possible. Oil production is projected to fall by 6 percent in 2006, and the existing production-sharing agreements would imply an 18 percent fall in government revenues from oil. The construction phase of Yemen LNG and Marib power projects are expected to help lift non-oil growth in 2006 to 5.4 percent.

Table 1: GDP Growth, 2001-2006

	2001	2002	2003	2004	2005 Est.	2006 Proj.
GDP Growth	4.6	3.9	3.1	2.6	3.8	3.9
Oil	1.3	0.4	-1.8	-6.9	-0.9	-6.3
Non-Oil	5.2	4.6	4.0	4.1	4.5	5.4
<i>Memo Items</i>						
Per-capita GDP growth	1.5	0.9	0	-0.5	0.6	0.7
Crude oil production (1,000 barrels/day)	434	433	425	396	393	368

Source: IMF data, March 2006.

### *Doubts About Long-term fiscal sustainability*

**5. Indicators of long-term fiscal sustainability worsened in 2005.** Because oil is an exhaustible resource, using oil revenues to finance current expenditures erodes assets for future generations. Though the overall budget deficit in 2005 is projected to be contained at 2.4 percent of GDP, the non-oil primary deficit worsened by as much as the increase in oil revenues—6 percent of GDP (Table 2). The prevailing deficit levels are well above what is considered to be optimal if the government wanted to preserve per capita oil wealth. The government cut back on development expenditures and raised current expenditures. Compared with 2004, the incremental current expenditures were allocated to largely untargeted subsidies and transfers, military and other expenditures, and wage increases (Figure 1).

**6. The government has implemented the first stage of a four-stage National Wage Strategy which started in July 2005.** The agenda includes a revised pay and grading structure that rewards government employees based on well-defined job performance criteria instead of on formal qualifications and length of service. The strategy also increases decompression of pay and consolidates most allowances into a universal pay scale. The salaries for the highest ranking officials (minister, deputy minister) are likely to increase by a factor of five or six when the reform program is completed. Level 1 officials will get the highest nominal increases in the first phase. In nominal terms, salaries for lower level civil servants are expected to increase by about 2.5 times for level 2, 2.2 times for level 3, 2.1 times for level 4, and 1.8 times for levels 4 and 5. The minimum wage will rise to YR 20,000 per month. The current minimum wage (including allowances) is about YR 11,000 per month.

**7. A welcome development was the approval of a ten-year Public Financial Management strategy by the cabinet in August 2005.** This strategy continues the reform started in 1995 in four main areas of budgetary preparation and execution, budgetary control and accountability, bidding and procurement, and capacity building.

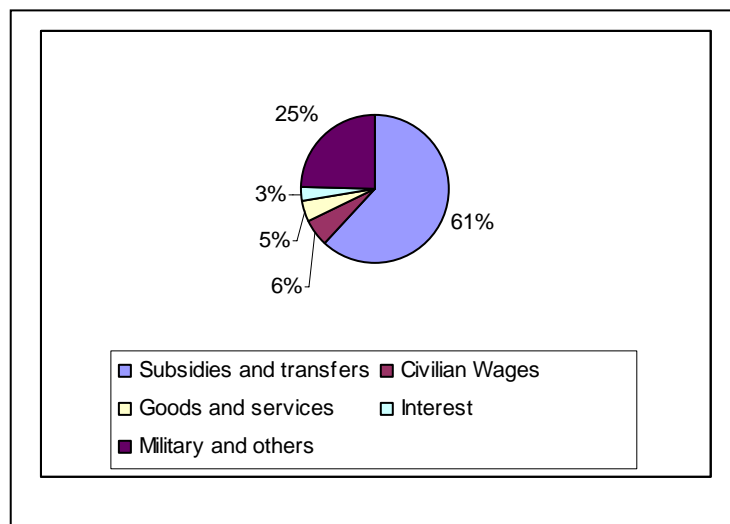
Table 2: Central Government Finance 2002-06 (In percent of GDP)

	2002	2003	2004	2005 (Est.)	2006 (Proj.)
<b>Overall Fiscal Balance (commitment basis)</b>	<b>-1.2</b>	<b>-4.8</b>	<b>-2.3</b>	<b>-2.4</b>	<b>-3.0</b>
<b>Primary non-oil fiscal balance</b>	<b>-21.5</b>	<b>-25.1</b>	<b>-23.2</b>	<b>-28.9</b>	<b>-26.4</b>
<b>Total Revenues and Grants</b>	<b>33.6</b>	<b>30.9</b>	<b>32.0</b>	<b>38.1</b>	<b>36.1</b>
Oil and gas revenues	22.3	22.1	23.1	29.0	25.8
Tax Revenues	7.5	6.7	7.1	7.4	7.7
Direct Taxes	3.2	3.1	2.8	3.3	3.6
Indirect Taxes	4.2	3.5	4.3	4.1	4.1
Grants	1.6	0.4	0.7	0.0	0.6
<b>Total Expenditure and net lending</b>	<b>34.8</b>	<b>35.7</b>	<b>34.2</b>	<b>40.5</b>	<b>39.1</b>
Current Expenditure	27.7	26.7	24.7	31.2	30.6
Transfers and Subsidies	7.2	8.1	9.2	13.2	12.0
Wages and Salaries (civilian)	7.7	6.6	6.4	6.8	7.3
Goods and Services	2.6	2.4	0.6	0.9	1.0
Interest Obligations	2	1.7	2.2	2.4	2.4
Development Capital Expenditure	7.1	9.1	7.9	7.3	7.0

Source: IMF estimates, March 2006.

Note: Primary non-oil is derived by subtracting interest obligations and oil and gas revenue from overall balance (commitment including grants)

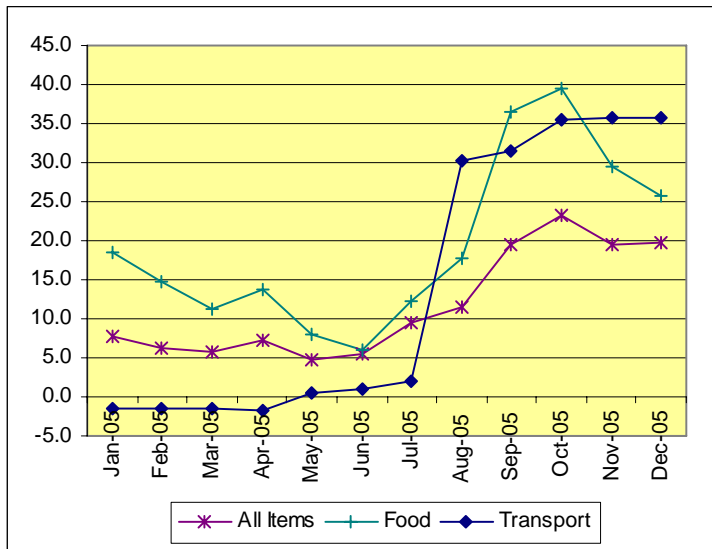
**Figure 1.**  
Where did all the incremental current expenditure go?  
Source: IMF Data, March 2006.



**STABILIZATION OF INFLATION AT 20 PERCENT ANNUAL RATE**

8. *Annual inflation in consumer prices has been averaging about 10 percent in the past five years.* The sharp rise in petroleum product prices in July 2005, --between 60 to 120 percent--has sparked cost-push inflation as anticipated. Transport and food prices have made the sharpest jumps (Figure 2). Transport prices have stabilized at a level 35 percent higher than previous year. Inflation in food prices, after peaking at 40 percent in October 2005, is slowly stabilizing to about 20 percent, as all other prices are doing. The adjustment in transport prices is roughly in line with previous experience. When diesel prices were raised by 70 percent in 2001, transport prices settled 25 percent higher. Unwillingness to use the interest rate instrument is tying the hands of government in bringing inflation quickly under control. Money supply expansion at 14 percent is a little higher than what is thought to be needed to keep inflation under 10 percent. The policy of gradual depreciation of the rial at a 5 percent annual rate when domestic prices have risen by 20 percent would make it difficult for Yemeni exports to be competitive.

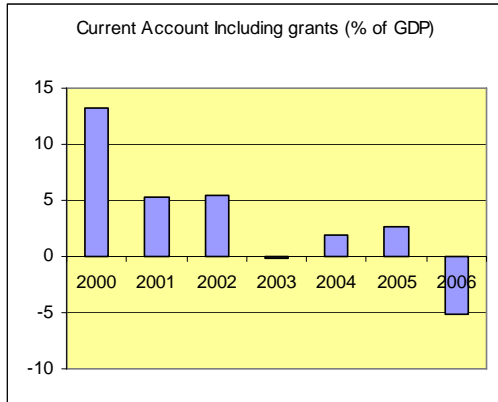
**Figure 2: Inflation in Consumer Prices, 2005.**



Source: Central Bank of Yemen

**CAPITAL GOODS IMPORTS TO TURN CURRENT ACCOUNT INTO DEFICIT IN 2006**

Figure 3: Current Account Balance as a ratio of GDP (percent)



Source: IMF Data, March 2006.

9. *Yemen’s current account balance has been in surplus for most of the past five years because of high oil prices (Figure 3).* Despite a slight fall in crude oil production, the current account balance remained in surplus in 2005. The receipts side of the current account balance is dominated by oil revenues. There are signs of higher growth (20 percent in 2005) in non-oil exports such as fish and related products. Worker remittances have remained flat at US\$1.2 billion (8 percent of GDP) in the past eight years. Tourism earnings, estimated to have increased at a 5 percent annually in recent years, still remained small at about 1 percent of GDP. A strong one-time surge in imports of capital goods for the US\$4.5 billion LNG plant is expected to turn the *current account balance into a deficit for 2006. International reserves have increased to reach nearly US\$5.5 billion at the end of 2005, the equivalent of eight months of imports of goods, services and interest payments.*

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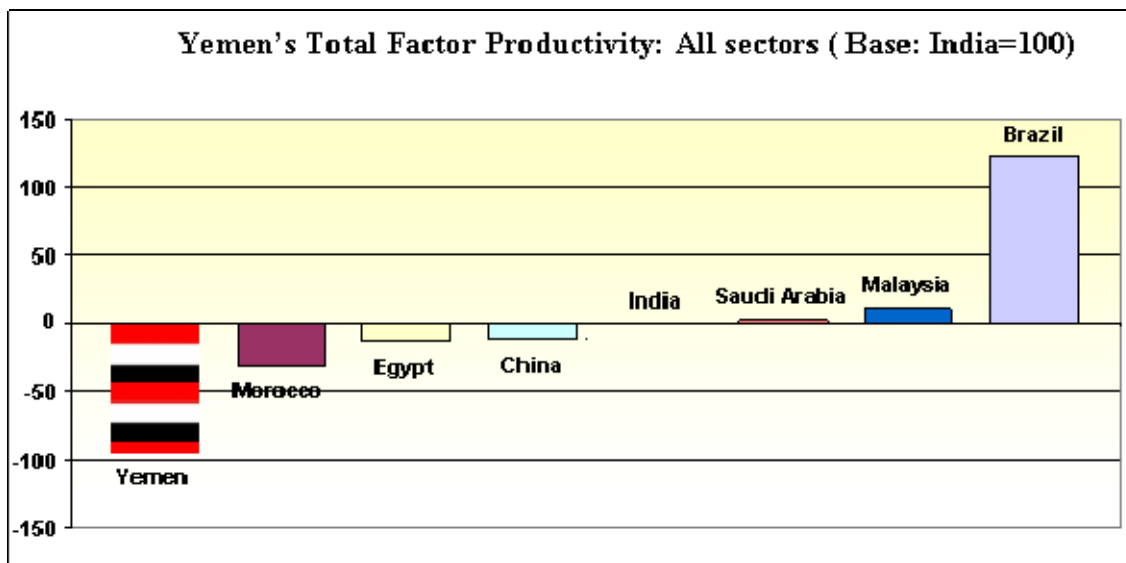
**III. STRUCTURAL DEVELOPMENT & POLICIES**

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**INVESTMENT CLIMATE ASSESSMENT, 2005**

10. *Yemen’s severe poverty and high unemployment, combined with its declining oil and water supply, create an urgent need to discover new sources of private sector-led growth and employment.* Given its small domestic economy, this growth must come largely from exports. Yet in a growingly global and WTO regulated environment, competition demands that Yemen provide an investment climate that stimulates higher productivity and cost-competitiveness.

Figure 4



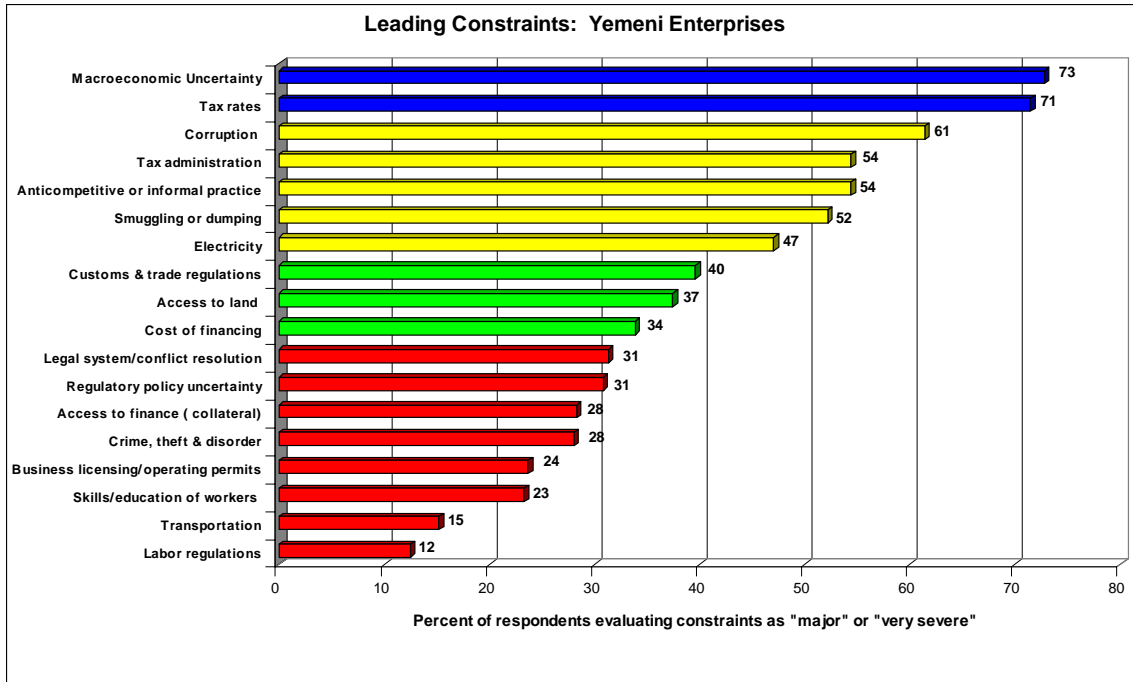
Source: World Bank Investment Climate Enterprise Surveys

11. A new World Bank investment climate assessment (ICA) uses a major new survey of 488 industrial and construction firms across the country; numerous field interviews of business leaders, public officials, and other experts; and existing sources to better understand what policy and institutional obstacles may be constraining firms' competitiveness. Its first finding is that productivity in Yemen is quite low relative to a host of other countries; productivity would have to nearly double to match that of India (Figure 5).

12. The investment climate can facilitate or constrain productivity growth. It critically determines firms' costs, opportunities, and incentives. Thus, addressing key constraints in the investment climate offers a path toward higher productivity and growth. Using firms' own identification of constraints and other analysis, the ICA finds four key areas in which the investment climate constrains the ability of the private firms and investors to respond to market opportunities, stimulate growth, and generate jobs. Within the context of a more stable macroeconomy, Yemen's private sector needs progress in four key policy areas in order to better compete, grow, and create employment (Figure 6):

- Tax and regulatory burden
- Weak governance
- Infrastructure services (especially electricity, land, and water supply)
- Finance

Figure 5



Source: World Bank Investment Climate Enterprise Surveys

**TAX AND REGULATORY BURDEN**

**13. Yemen’s current structure of taxes and regulations, as applied, imposes a tremendous compliance burden on formal enterprises, encouraging widespread evasion.** Interactions with government officials are often difficult, the average firm experiences 16 inspections a year, and requests for illegal payments or gifts are common. Despite significant improvements in service delays since 2001, a variety of approval procedures—whether for customs clearance of imported goods, building permits, or business registration—involve significant delays and excess costs. The cost of business registration, measured in per capita income, is five times the regional average.

**GOVERNANCE AND CORRUPTION**

**14. Burdensome taxes and regulatory provisions, many riddled with exceptions, cause a second leading problem: corruption and weak governance.** Without good governance, government credibility is weak, and other reforms are hard to enact and implement. Yet both the international indicators and the investment climate survey suggest that the governance quality in Yemen is weak and even declining in critical dimensions such as control of corruption and regulatory quality. Responses to the enterprise survey suggest that weak governance and corruption have daily costs for enterprises operating in Yemen. The “tax” imposed by informal payments and gifts in Yemen is very high, averaging nearly 9 percent of sales.

*15. In part because of evasion, unequal treatment, and corruption, firms feel that competitors are able to undercut them. Though some firms are simply reacting to the increased competitive pressure resulting from lower tariffs, many formal firms contend with informal competitors that are less burdened by taxes and regulations.*

*16. Infrastructure weaknesses critically constrain productivity and investment in Yemen. The report highlights three aspects, power supply, land, and water, as follows:*

- Power supply is inadequate; the typical firm experienced 193 power interruptions in the past year and lost 4 percent of sales to those interruptions. Most firms buy generators to supplement public power supply.
- Commercial land with secure title is scarce, land registration is imprecise and subject to fraud, and disputes over land titles clog the courts.
- Water is not regarded as a central constraint by businesses, yet water scarcity imposes a critical limit to development in urban industry and agriculture.

#### **FINANCE**

**17. The Yemeni financial system does little for the average private firm.** Nearly 83 percent of firms surveyed had no bank loan at all. The banking sector is underdeveloped and has serious structural and institutional problems. Another explanation for the lack of credit is collateral, that is, problems of insecure property titles and weaknesses in the legal framework and legal institutions, which do not protect the rights of creditors or have methods for resolving commercial disputes.

#### **GENDER**

**18. The ICA finds that Yemeni women are disadvantaged by at least three factors:**

- A lower rate of education and literacy. In spite of dramatic improvements, the female literacy rate in Yemen in 2003 was 28.5 percent, less than half that for men.
- Greater constraints imposed by many of the above-mentioned aspects of the Yemeni investment climate.
- Certain cultural norms and restrictions limiting women's ability to participate as workers and entrepreneurs.

#### **EXPORT DIVERSIFICATION**

**19. Yemen has been excessively dependent on oil revenues for its export earnings in the past.** Diversifying exports will be critical to long-term growth as well as for employment generation for a rapidly growing population. Background analysis for the ICA delved into

four promising sectors for export diversification and identified a number of constraints in each. In agriculture, fisheries, building stones, and manufacturing, much potential is unrealized because of both outright impediments and lack of supportive policies and institutions. Common constraints include:

- policy constraints in the enabling business environment and the unlevel playing field confronting investors;
- exporter inexperience and a dearth of assistance and organization to help new exporters enter international markets; and
- institutional weaknesses of critical public and private institutions in each sector.

**REFORM STRATEGY**

**20. The ICA concludes that for Yemen to realize its substantial growth potential, it must remove the impediments in the investment climate that prevent market activities from creating growth and employment for a growing population.** Thus, reform efforts need to be focused on lowering the costs of doing business, while strengthening incentives for productivity and further opening the economy. All of these reforms will need to be introduced in a sequenced strategy that is grounded in good information, involves prior consultation of affected parties, trains of officials and professionals involved, and establishes clear communication with the public regarding the reform strategy and components. The ICA offers specific recommendations to address each of the major constraints.

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**IV. IV. CONCLUSION**

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**21. Helped by high oil prices, macroeconomic outcomes in 2005 turned out to be better than expected.** The government restarted the reform process in July–August 2005 with increases in administered prices, announcement of a national wage strategy, and cabinet’s approval of a new public financial management strategy. On the aid front, the past year was negatively affected by poor policy and portfolio performance in 2004. The IDA slashed its assistance by 34 percent for 2006–08 because of the weakening of Yemen’s relative performance in 2004 CPIA indicators and of the deterioration of performance in IDA-funded projects.

**29. The year 2006—the year of the second presidential election—is going to be critical for Yemen.** The development community is looking for credible commitment to improving the policy and institutional environment. On projected outcomes, the current year is going to be like the previous one, with GDP growth slightly higher than population growth on the continued strength of oil prices. The negative impact of the decline in oil production, about 6 percent, is likely to be offset by construction activity of two big projects, YemLNG and Marib power plant. Because the big projects are financed by foreign capital, the overall

balance of payments will continue to register a small surplus. On the policy front, Yemen has the potential for noticeable improvement, if the short-term action plan to improve governance is implemented on schedule.

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**V. ECONOMIC AND SECTOR DIALOGUE**

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**Country Assistance Strategy Discussions:** The World Bank is currently in the process of the preparation of the new CAS for Yemen (2006-2009). The CAS is scheduled for Board discussion in mid-June 2006. Extensive consultations have taken place in Yemen in two stages.. In the first round the World Bank held four workshops in Sana'a and Aden during the period November 19-22, 2005 with Government officials, NGOs, the private sector, donors and other members of civil society. The consultations provided a forum for participants to exchange views on how they see the main priorities (social and economic) for the country over the next 4 years and what role they envisage for the donor community, in particular the Bank in assisting Yemen. The second round of CAS discussions took place in March 2006 with the new government. The focus of the discussion has been on the main themes of the CAS and the key priority areas in support of the second PRSP.

**The National Childhood and Youth Strategy 2006-2015 (February 19-22)** The Government of Yemen launched the Children and Youth Strategy during a conference held on February 19-22, 2006. The strategy and the conference are the result of a three-year collaboration between the Government of Yemen, the World Bank, and UNICEF. The objective of the conference was to formulate action plans along the lines of the strategy recommendations to achieve the Millennium Development Goals (MDGs) pertaining to children and youth. The focus was on bridging the gaps in existing sector policies and programs through improved inter-ministerial collaboration.

**Yemeni Market for Trade Finance Mission ( January 23- 24)** An IFC mission visited Yemen during January 23-24 to discuss and explore the Yemen market and build upon relational and partnership opportunities with financial institutions. The Trade Finance Program which supports trade with the emerging markets worldwide, aims to increase the developing countries' share of global trade and promote South-South flows of goods and services.

**Youth Consultation for the Voices of the Youth initiative Sana'a, Yemen (February 10 – 16, 2006)** From February 10 through February 16, 2005 , the country youth consultation for the voices of youth (VoY) initiative was conducted in Yemen. The Yemen consultations were the second in a series of youth consultations in the region entitled, Voices of the Youth: MENA Youth Speak. The first took place in Egypt in December 2005. The Yemen consultation was funded by the Regional Youth policy note, the World Development Report (WDR) 2007 and the Yemen Social Fund for Development (SFD). The objective of the consultations, and the VoY initiative, was to provide a diverse group of young men and women in Yemen with an opportunity to voice their opinions and perspectives on the pressing issues they face.

*Health Sector Review mission( February 3-20)* A health sector mission visited Yemen from February 3, 2006 to February 20, 2006 to continue discussions on the ongoing donor harmonization and health sector review program; and supervise the Health Reform Support Project. The mission also carried out a Rapid Results Approach (RRA) workshop. The workshop defined goals to be achieved over the next 100 days.

## New & Noteworthy

### Laws, Decrees and Agreements (January-March)

#### March

- The cabinet discussed a report presented by the Governor of the Central Bank of Yemen on the economic, monetary and financial developments and growth and stability situation in Yemen in 2005, which includes the following indicators:
  - ◆ GDP growth of 4.6%;
  - ◆ Trade balance surplus US\$ 2.3 billion;
  - ◆ Current account surplus US\$ 1.2 billion;
  - ◆ Foreign debt decrease from US\$ 5.3 billion in the end of 2004 to US\$5.2 billion in the end of 2005
  - ◆ Foreign debts to GDP ratio decreased from 39% in the end of 2004 to 33% in the end of 2005;
  - ◆ Increase in the budget of banking sector from YR 660 in 2004 to YR 754 in 2005.
- Perused a monthly implementation report of the good governance reform matrix submitted by the Ministry of Planning and International Cooperation.
- Delegated the Minister of Trade and Industry in cooperation with the Minister of Planning and International Cooperation to make preparations for a conference on "Discovering Investment Opportunities in Yemen.
- Discussed the memorandum presented by the Ministry of Agriculture and the Ministry of Health regarding the requirements of the national Avian Flu preparedness plan
- Chairman of the Petroleum Exploration and Production Authority announced that 34 international companies have been initially qualified to get reward of operating 14 oil blocks through international tender.

#### February

- The cabinet discussed the procedures to tackle damages caused by heavy rains in Ma'abar district, Dhamar Governorate;
- Discussed a report on preventive measures against Avian Flu entering Yemen submitted by the Ministry of Agriculture and Irrigation;
- Approved the results of the fifth meeting of the Yemeni-Moroccan Committee and the results of the seventh meeting of the Yemeni-Omani Joint Committee which took place in early February;
- Discussed a ministerial report regarding the situation in Marib governorate and its development requirements;
- Approved the credit agreement signed between Yemen and IDA in January in the amount of US\$ 20 million for the Rainfed Agriculture and Livestock Project.

- Allocated the amount of YR 3 billion for implementing development projects in Al-Hodeidah primarily in the field of electricity, environment, public works, sanitation, health and youth;
- Formed a ministerial committee to study the restructuring the Ministry of Foreign Affairs and Expatriates.
  
- The Central Bank of Yemen injected US\$ 54 million to the market on February 20 to meet foreign exchange needs.
- Public Authority for Civil Aviation and Meteorology and the Beijing Company for Construction and Engineering (China) have signed an implementation agreement for the second phase of Sana'a International Airport Project with the total cost US\$ 114.7 million.
- Sixty-three firms expressed interest in the exploration and production of oil in fourteen Yemeni oil blocks between September 2005 and now.

**January**

- The cabinet approved draft executive by-law of the University Law 18/1995;
- Approved draft Republican Decree regarding establishment of the Lands, Surveys and Urban Planning;
- Approved the design of rebuilding of Al-Dhafeer village in Bani Madar which was severely damaged by the rockslide in December 2005.
- Reviewed the report submitted by the Ministry of Finance regarding Yemen's foreign debt status, which reaches US\$ 5.3 billion.
- Approved amendment of Article 104 of the Law 1/1991 regarding judicial authority, namely formation of the Higher Judicial Council;
- Approved the Memorandum of Understanding signed between the Ministry of Education of Yemen and the Ministry of Education of Oman;
- Approved the Cooperation Agreement between the Ministry of Youth and Sports of Yemen and the Ministry of Youth of Palestine.

**Workshops:**

- The Fourth Yemen-German Medical Conference took place from March 6, 2006 to March 8, 2006.
- The Third Women's National Conference was organized by the National Women's Committee during March 6-8.
- A workshop on the Role of Media in Democratic Transformation was organized by the Human Rights Training and Information Center during March 12-14.
- A symposium on the Phenomenon of Kidnapping in Yemen was organized by the Yemen's Center for Studies and Research during February 19-20.
- The First Childhood and Youth National Conference under the motto "Together to Develop Children and Reinforce Youth Role in Development"

was organized by the World Bank and Child Development Project during February 19-22.

- A workshop on the Parliament's Role in Combating Corruption was organized by the National Democratic Institute on February 23.
- A joint Yemeni-Syrian workshop to exchange experiences in the water and sanitation sector reform took place on February 26-27.
- the 3rd Meeting of the Board of Trustees of the Arab Center for Educational Training of the Arab Education Bureau of the Gulf countries took place during February 5-6.
- A workshop on Child Labour was organized in Ibb by the Childhood Friends Society in Cooperation with UNICEF during February 5-9.

**Donors Activities:**

- An expanded meeting was held to discuss the final draft of the UN Regional Cooperation Group for development assistance to Yemen during 2007-2011.
- The European Union has allocated to Yemen food aid in the amount of €5 million starting 2006.
- The Japanese government has granted US\$ 82,000 to Saba School in Ibb governorate under its scheme "Grant Assistance for Grassroots Human Security Project".
- A Dutch-Yemeni partnership agreement to improve drinking water situation in Taiz was signed during the visit of the Dutch Minister of Development, H.E. Agnes van Ardenne
- The meetings of the 13th Round of the Joint Yemeni-European Committee took place during February 7-9.

## VI. World Bank Group Operations in Yemen

Relations between the World Bank and the government of Yemen are close and continue to cover knowledge and lending services in sectors critical to development and poverty reduction. The World Bank assistance to the implementation of the first Yemen's Poverty Reduction Strategy Paper (PRSP) was articulated in the 3-year Country Assistance Strategy (FY03-05). A CAS Completion Report as well as a new 4-year CAS (FY06-09) are currently being prepared and will be available in mid-June 2006.

**Country Assistant Strategy (FY03-05).** The four main pillars of the CAS are: (a) better public sector governance; (b) an attractive environment for private investment; (c) building and protecting human capital; and (d) ensuring environmental stability, particularly in the critical area of water. A total of over US\$387 million was committed between FY03 and FY05 for seven operations. These include two credits for agriculture/rural development, two for infrastructure/urban development, one for water, one for the innovative and successful social funds for development, and one for basic education development program. In addition two projects (*Second Rural Access Improvement Program*, and *Fisheries Resources Management and Conservation* were approved in this Fiscal Year (FY06), and one project *Agriculture and Livestock* has already being negotiated.

**Knowledge Services.** Bank's key non-lending support included of the following studies: public expenditure management, civil service modernization, country financial accountability assessment, petroleum price policy reform, household energy supply and use, development of national gender strategy, environmental safeguard requirements, and strategic plans for long-term development of coastal aquifers. Coordination among donors has become more regular and, with the establishment of subgroups dealing with key sectors and activities such public financial management, water and education. A number of partnership agreements are already in place, including, education, health, PFM and aid harmonization. Collaboration with, and support for, civil society organizations has also deepened, both directly (e.g., NGO capacity building grants) and indirectly (e.g., through projects using NGOs for implementation).

**Lending Services:** As of end-February, 2006, there were [19 projects] under implementation, with total commitments of US\$ 747 million of which US\$270 million disbursed. About 20% of the portfolio, by value, was dedicated to the water sector, 20% to education, almost 21% to health and other social sectors, 15% urban development, 14% to agricultural/rural sector, 6% transportation, and 4% to public sector governance. Overall portfolio performance and management remain satisfactory, with only one problem project--*Health Reform Support Project*. To improve further the implementation of Bank-supported project, a Country Portfolio Performance Review (CPPR) follow-up committee was established consisting of senior government officials from the Ministry of Planning and the Ministry of Finance as well as officials from the Bank. The committee meets regularly.

**Bank-Fund Collaboration.** Bank and Fund staffs consult regularly and coordinate their activities. A Joint Staff Assessment Note of the Government’s first Annual Progress Report of the Poverty Reduction Strategy Paper is under preparation for consideration by both Boards of Directors in May/June 2006. Main areas of focus of collaboration include public financial management, including civil service reform, budgeting and public expenditure modernization. .

**International Financial Corporation.** The International Finance Corporation (IFC) has three active investments in grain processing, ceramic tile manufacturing, and bottled water, totaling \$9 million. In FY06, IFC has developed a strong pipeline of projects in sectors such as oil refining, ports, and cement, which could be committed between FY06-07. In addition to the investment pipeline above, IFC’s focus in the future is in the financial sector, including leasing and microfinance. The focus of the TA program in the country is on four main areas: financial markets, SME development, gender, as well as Business Enabling Environment (BEE).

- In financial markets, IFC has been active in leasing programs (including work with the Central Bank on leasing registration and legislation and the organization of an international leasing conference in the country) and is initiating a microfinance TA to support the initiatives of the second largest Yemeni bank to service this sector.
- In SME development, IFC has focused on management training through Business Edge, including Train-the-Trainer programs for training companies in Yemen, Chambers of Commerce, and the Social Fund for Development.
- IFC’s gender program work has included a scoping and analysis exercise and is preparing to launch a two-year TA program focusing on gender and entrepreneurship.
- In coordination with the Bank-financed Port Cities Development Program, IFC is initiating a “Business Start-Up Simplification” activity that would focus on simplifying administrative procedures at the central Government level as well as the implementation of reforms at the local level in selected port cities. PEP-MENA will also be focused on responding to a Government request to improve the country’s policy framework to promote private investment in mining, including assistance to the Granite and Marble Association which would strengthen SMEs in that industry.

## Ongoing World Bank Operations in Yemen

(as of February 28, 2006)

#	<i>Name of the Project</i>	<i>Effectiveness Date</i>	<i>IDA Credit Amount (In million US\$)</i>	<i>Disbursed (In million US\$)</i>
1.	<i>Southern Governorates Agricultural Privatization</i>	<i>June 29, 1998</i>	20.69	19.36
2.	<i>Public Works Project III</i>	<i>July 15, 2004</i>	45.0	13.52
3.	<i>Port Cities Development Program</i>	<i>July 14, 2003</i>	23.4	5.15
4.	<i>Civil Service Modernization</i>	<i>November 29, 2000</i>	30.0	16.31
5.	<i>Child Development</i>	<i>December 19, 2000</i>	28.9	22.96
6.	<i>Basic Education Expansion Project</i>	<i>January 16, 2001</i>	56.0	44.91
7.	<i>Irrigation Improvement</i>	<i>January 18, 2001</i>	21.3	9.95
8.	<i>Rural Water Supply and Sanitation</i>	<i>October 23, 2001</i>	20.0	9.70
9.	<i>Taiz Municipal Development and Flood Protection</i>	<i>February 26, 2002</i>	45.2	28.74
10.	<i>Rural Access Improvement</i>	<i>March 18, 2002</i>	45.0	41.15
11.	<i>Health Reform Support Project</i>	<i>January 22, 2003</i>	27.53	3.87
12.	<i>Higher Education Learning and Innovation</i>	<i>September 19, 2002</i>	5.0	0.57
13.	<i>Urban Water Supply and Sanitation</i>	<i>November 24, 2002</i>	125.26	31.38
14.	<i>Sana'a Basin Water Management</i>	<i>December 22, 2003</i>	24.0	3.35
15.	<i>Ground Water &amp; Soil Conservation</i>	<i>August 17, 2004</i>	40.0	2.72
16.	<i>Social Development Fund III</i>	<i>August 15, 2004</i>	60.0	14.28
17.	<i>Basic Education Development Program</i>	<i>March 14, 2005</i>	65.0	2.0
18.	<i>Second Rural Access Improvement</i>	N/E	40.0	0
19.	<i>Fisheries Res. Mgt &amp; Conversation</i>	N/E	25.0	0
	<i>Total</i>		747.28	269.92

## VII. World Bank Publications

### *Recent World Bank Publications*

#### *Financial Crises: Lessons from the Past, Preparation for the Future*

*Edited by Robert E. Litan , James A. Hanson , Gerard Caprio  
English Paperback 291 pages  
Published December 2005 by Brookings Institution Press*

*ISBN: 0-8157-1289-8 SKU: BRI-2898*

Numerous crises rocked the world financial sector in the 1990s: the Asian bubble burst; Argentina and Brazil suffered currency crises; and the post-Soviet economy bottomed out in Russia. Here a distinguished group of economists and policy analysts draw lessons from attempts to recover from these and other financial crises of recent history. Potential hazards facing the world economy in the twenty-first century are also discussed along with approaches that could help to prevent them.

This important new volume emerges from the seventh annual conference on emerging markets finance, cosponsored and organized by the World Bank and the Brookings Institution. It is the sixth volume in the Emerging Markets Series.

Contributors: Indermit Gill (World Bank), Morris Goldstein (Institute for International Economics), Robert Holzmann (World Bank), Patrick Honohan (World Bank), Fernando Montes-Negret (World Bank), Thomas Muller (World Bank), Brian Pinto (World Bank), and Anna Wong (Institute for International Economics).

*Robert E. Litan is vice president for research and policy at the Kauffman Foundation in Kansas City. He is a senior fellow in Economic Studies at the Brookings Institution. Gerard Caprio is director of the Operations Policy Department in the World Bank's Financial Sector Presidency. James A. Hanson is a senior adviser to the World Bank's Financial Sector Operations and Policy Department.*

#### *Disease Control Priorities in Developing Countries (2nd Edition)*

*Edited by Dean T. Jamison , Joel G. Breman , Anthony R. Measham , George Alleyne , Mariam Claeson  
David B. Evans , Prabhat Jha , Anne Mills , Philip Musgrove*

*English 1400 pages 8.5 x 11  
Published April 2006 by Oxford University Press , World Bank*

*ISBN: 0-8213-6179-1 SKU: 16179*

In 1993, the World Bank published a seminal work, Disease Control Priorities in Developing Countries, a 750-page volume that established the concepts of disease burden and cost-effectiveness as important inputs to health policy in middle and low income countries. This second edition continues the effort to support evidence-based decision making in public health. It presents updated and improved information on disease burden and cost-effectiveness by disease or risk category. It will also extend the analyses

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from the first volume to address health system institutions, policy instruments, and cross-cutting themes such as women's health, population aging, and health care finances.

***Reform and Growth: Evaluating the World Bank Experience***

*English Paperback 214 pages  
Published January 2006 by Transaction Publishers*

ISBN: 1412805236 SKU: TP-5236

Although the quest for growth remains as elusive as it was more than a decade ago, there is now much greater consensus on the policies and institutional changes that are needed to foster growth and economic development. But debate continues on the timing, sequencing, and local adaptation of these reforms. Furthermore, although the benefits of reform are well documented the reasons as to why and when reforms occur still remain somewhat unclear. Many countries go through long periods of stagnation or even decline, without being able to create an environment for change, while others seem able to break the hold of vested interests and start following paths of reform.

In October 2004, the Operations Evaluation Department (OED) of the World Bank held a conference on the Effectiveness of Policies and Reform. This event provided a forum at which participants over 500 government officials, civil society representatives, and World Bank staff could discuss how to improve the effectiveness of World Bank support for development policies and reform programs.

Included in this volume are the contributions of distinguished development practitioners on issues such as: the links between good performance and policy change; how windows of opportunity can best be used to promote reform; how ownership of policies and reform programs can be encouraged; and how developed country policies can be improved to create a better global environment for development.