YEMEN ECONOMIC UPDATE

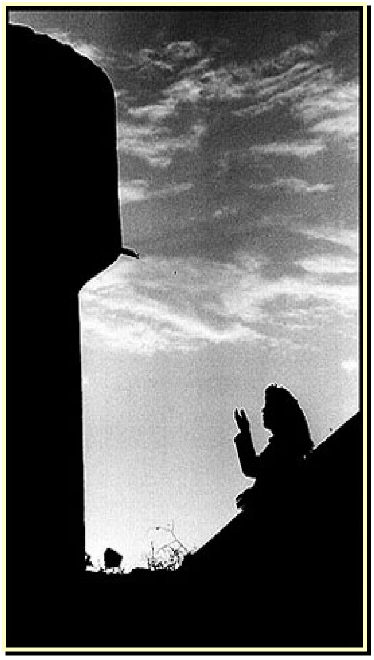
Summer 2007

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.

Inside this Issue:

The World Bank Group
Sana'a Office

SUMMARY:



Yemen's macroeconomic performance showed mixed results in 2006. Oil production declined by 8.8 percent, while non-oil growth continued at a modest pace of about 5 percent, leading to an overall growth rate of 3.3 percent, slightly less than the 4.3 percent of the previous year. Meanwhile, 2006 prices of Yemeni crude exports increased by 22 percent, helping to boost the current account and push foreign reserves to the equivalent of about 11 months of imports. Similarly, government-related oil and gas income increased by more than 40 percent, leading to a small fiscal surplus for the first time in many years. Oil continued to play significant role in economy, accounting for nearly three-quarters of fiscal revenues and more than 90 percent of exports.

Inflation cooled off during the first five months of 2007. In 2006, cost of living index soared by 18.4 percent, on the account of significant jump in food items and transport. The jump in food prices, estimated at 28.6 percent, was driven by supply factors resulting rising international food prices and lifting of domestic fuel subsides in 2005. Rising inflating was also driven by strong domestic demand sustained by rising public expenditure and wages and continued influx of workers' remittances. The inflationary peak occurred during the months of September–October of 2006, the time of the presidential elections, when the all-items price index jumped by nearly 12 percent over these two months. Since then, inflation rate gradually eased, retreating to 1.6 percent in the last two months of the year. Meanwhile, the Rial's exchange rate with the U.S. dollar depreciated slowly, by less than 3 percent a year, which given the presence of high inflation, is expected to lead to a further appreciation of the REER.

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The outlook for Yemen's economy in 2007 calls for a slight improvement*.* In the oil sector, while prices are expected to remain firm, crude output and exports are likely to witness sharp decline. As a result, oil's contribution to growth, fiscal and current accounts will fall. In the non-oil sector, Yemen is likely to witness some improvement owing to increased levels of capital spending, both from private and public sources. Inflation rate is projected to moderate from its 2006 highs, reflecting smaller rises in food and fuel prices.

The primary non-oil deficit, the major indicator of fiscal sustainability, will continue to widen 2007. At the current production rate, oil reserves will be depleted within 14 years. Some improvement in the non-oil balance is expected to occur beginning from 2008, as fuller implementation of reforms in civil service administration, taxation, and other areas of public financial management kick in. However, serious progress will require the Yemeni Government, in addition to improving year-to year financial management, to take a longer-term perspective and set up explicit policy objectives and time bound plans to reduce fiscal vulnerabilities.

Overall, recent economic outcomes and policies have been encouraging on the structural and governance fronts. The authorities continued efforts to improve governance, public financial management, and civil services administration. The newly formed Anticorruption Authority was finally completed when Parliament gave its approval to the selected board members. A national procurement manual and a restructured High Tender Board were approved, while the Procurement Law was undergoing a second round of revisions. Work has also proceeded satisfactorily in various areas of public financial management, including the AFMIS project, budget classification and reporting and preparation of Financial Law. In the area of Civil Services Reform, progress has been made in the biometric identification system and the implementation of the national wage strategy. The Government has officially joined the Extractive Industry Transparency Initiative (EITI), while steps were continuing to increase the effectiveness of internal and external auditing.

I. RECENT POLITICAL DEVELOPMENT

The long-running conflict between the Yemeni government and the radical Houthi group in the Saada governorate, northern Yemen, has shown signs of cooling off after a period of intensification. The conflict dates to September 2004, and has been mostly localized and low-key, but conflict has escalated in recent months after the killing of a number of Yemeni soldiers. Various meditation efforts were attempted to bring the two sides to negotiate. The most recent effort in this regard was orchestrated by Qatar, which seems so far to have led to fire cease and agreement between the two sides to settle the conflict peacefully.

The Government is taking some positive measures to improve the status of women in Yemen. The Yemeni society remains traditional with women maintaining lower economic and social status compared to men, and subsequently scoring lower on social indicators such as health, education, and poverty. Women in the past faced inequitable access to justice and showed very little presence in the public and political decision making life. Recently the government made some efforts to improve this situation by committing to adopt policies to increase the share of women in electoral positions, government jobs, and occupations in the justice system. In February 2007, the Cabinet approved a plan to conduct a comprehensive review of existing legislation in order to eliminate all forms of discrimination against women. For the first time, a female judge was appointed to the high court in 2006, and women were allowed to enroll in the Judicial College. In the public administration and politics, recent months witnessed the appointment of several women to key positions.

In keeping with the efforts to strengthen reforms, Yemen witnessed a major cabinet reshuffle at the end of March 2007. The new Prime Minister, Ali Mujawer, is viewed as a pro-reformist with strong anti-corruption credentials. The new 33-member cabinet includes 11 newcomers. Most prominent among the changes was the replacement of the ministers of finance, industry and trade, communications, agriculture, culture and expatriate affairs. The new Cabinet also includes two female ministers; one for human rights, and another for labor and social affairs.

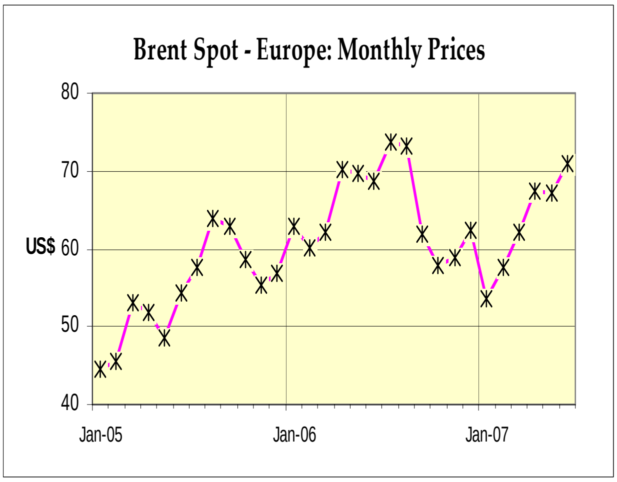
The Government continued efforts to control the spread of personal arms. Lax rules on gun control and the subsequent spread of arms among Yemeni civilians in the past have led to violence and shaking confidence in the ability of the government to maintain security and order. In January 2007, a Republican Decree was issued to organize the bearing of arms for bodyguards of tribal Sheikhs and government officials. The new decree sets stringent requirement for carrying arms by bodyguards who are escorting senior officials and tribal Sheikhs, including training and the wearing of special uniforms. The decree also set limits on the number of bodyguards that could be assigned to (and paid for by the government) to every official. Later in April, the Cabinet made another decision to temporarily close stores trading in arms, ammunition, and fireworks all around Yemen. Under the new rule, all traders who wanted to continue dealing with and fixing personal arms and fireworks were required to submit formal application and licensing to the Ministry of Interior.

A new study by the World Bank re-emphasizes the determinately social and economic effects of qat use in Yemen. The study, titled "Yemen: Towards Qat Demand Reduction", concludes that qat plays a major role in hampering productivity and contributing to poverty. The enormous amount of time spent chewing qat is time that, in other countries, is typically spent in productive activities. Some 36 percent of the users spend 2-4 hours per day; 35 percent spend 4-6 hours a day, and a 22 percent spend more than 6 hours a day chewing qat. Most users believe that qat enhances their immediate work performance, but about a third reports that work performance is impaired the day after chewing qat. Tragically, the report finds that under a fifth of all qat users are forced into debt to finance their chewing habit. The study also revealed that many of the current users were in favor of the government taking active role in reducing qat demand. To deal with the qat problem, the study suggests a number of measures including moral suasion through awareness campaigns in partnership with leading NGOs, and higher taxes on consumption. Government support is also needed to promote effective substitutes for qat consumption, with greater access for youth to sports, youth centers, and cultural activities, and for the adult population, by boosting employment demand. The study also suggests a broad package of supply-side measures that could be used to mitigate the likely long-term effects of qat cultivation on employment and rural incomes. A combination of legal reforms, crop diversification measures, improvements in water resource management, and social safety net measures will be necessary to facilitate the shift in resources, currently go into producing qat, into other forms of productive economic activity.

II. MACROECONOMIC DEVELOPMENTS

World oil markets showed a strong rebound in the first half of 2007. After falling sharply to below $60 per barrel (Brent-Europe) in October 2006, prices resumed recovery from February 2007 onwards, supported by earlier cuts in production by OPEC, and rising tensions in the Gulf. Oil prices reached more than $70 per barrel in June, and are expected remain firm for the rest of 2007 owing to growing global oil demand, and continued threats of supply disruptions.[1]

Figure 1: Crude Oil Prices ($ per barrel)



Tracking international trends, the price of Yemeni crude exports firmed up during the first five months of 2007, reaching US$66.4 per barrel by May, equivalent to about 14 percent increase from January. For the first five months of 2007, the average price US$60.2 per bbl remains below the 2006 average of US$ 63 per bbl[2]. There are no official figures available yet on the overall production profile during the first five months, however in terms of monthly government share of oil exports, the CBY data indicate a sharp drop in volume of about 36.5 percent compared to 2006. With the average price for the first five months 2007 still below the 2006 average by some 4 percent, the decline in oil output has translated into a reduction in government oil export revenue by 39.2 percent, in comparison to 2006. [3] Historically, oil has accounted for nearly three-quarters of fiscal revenues and about 90 percent of exports. Government has been receiving about 80 percent of oil export revenues, while the rest goes to operating companies.

Table: Summary of Government Share in Oil Production January –May 2007

	Value of exports (million US$)		Volume of exports (million bbls)		Avg. implicit price per bbl (US$)
	Period	Monthly	Period	Monthly	
2006	4013.5	334	63.7	5.3	63.0
Jan - May 07	1015.2	203	16.9	3.4	60.2

Source: CBY

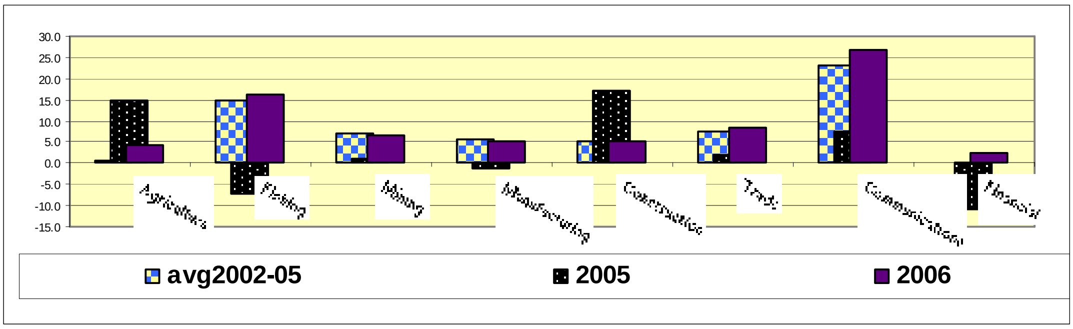
1 At the end of June 2007, and taking into account prevailing trends in future markets average Brent price for 2007 is expected settle at around $62 per bbl.

2 Implicit price based on CBY reported oil exports quantities and revenue.

3 As oil prices continue to firm up in 2007, the gap in export revenue between this year and 2006 will shrink but it is not expected to disappear.

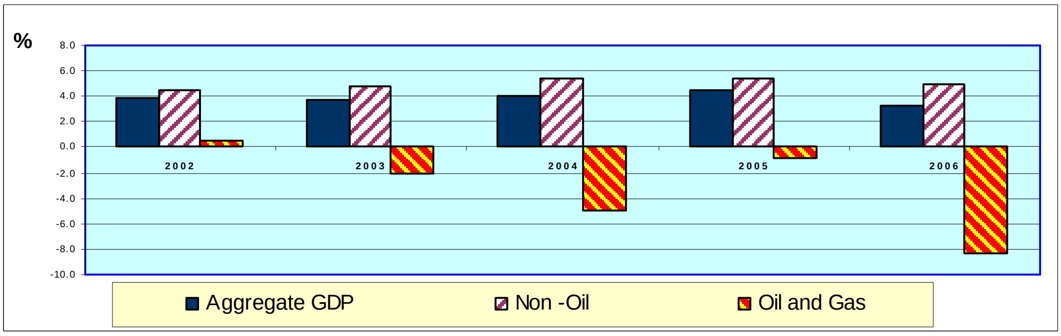
Economic growth witnessed a slight deceleration in 2006. Real GDP grew at a modest 3.3 percent, slipping by more than one percentage point from the previous year. The slowdown largely reflects the sharp loss in oil output, estimated at more than 8 percent. Growth momentum in the non-oil sector remained stable at about 5 percent[4]. Manufacturing sector production slowed from 8.1 percent to 5 percent. Meanwhile, fisheries and trade sectors showed improvement in 2006, with the first expanding by 16.4 percent (compared to 10.1 percent in 2005), and the second by 8.3 percent (compared to 3.5 percent a year ago). On the expenditure side, growth was primarily sustained by the expansion in public final consumption. Investment spending, on the other hand remained stagnant with the bulk of activity taking place in the energy and infrastructure sectors.

Figure 2: Growth performance of main GDP sectors in Yemen: 2002-2006



The 2007 outlook suggests that GDP growth will continue at roughly the same pace as the previous year of about 4 percent. A modest improvement in the non-oil GDP growth to 5.5 percent will be offset with further contraction in oil output of 10 percent. Growth in the non-oil sector will benefit from new public investment projects, supported by pledges from Consultative Group donors, and ongoing projects (including Yemen LNG, Marib Power, and the first private sector refinery).

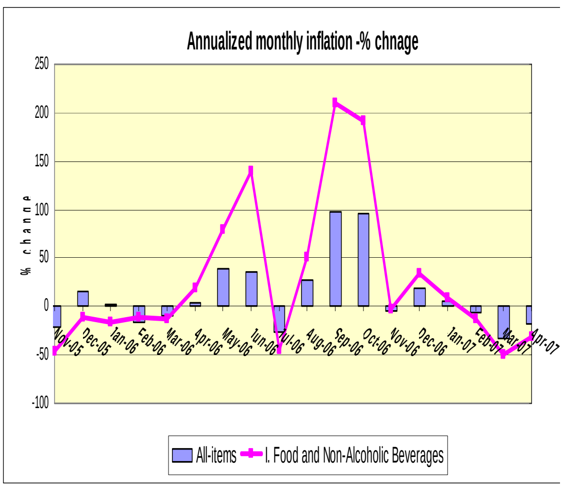
Figure 3: Real GDP Growth in Yemen, 2002-06 (Percent)

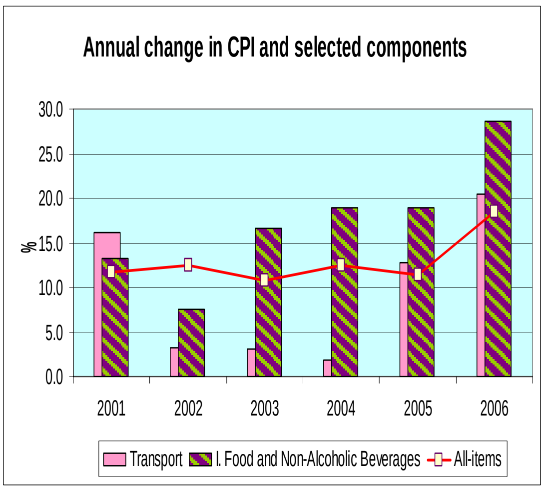


[4] Recent IMF mission revised 2006 growth estimates upwards, from 3.3 to 4 percent for total GDP and from 5.0 to 5.8 percent for non-oil GDP. The revision seems to reflect the omission by the CSO of capital spending on some large project, in preparing the 2006 preliminary GDP estimates

Inflation in 2006 surged to 18.4 percent, driven primarily by higher food and vegetables costs. The jump in food prices, estimated at 28.6 percent, has largely reflected the 45 percent price escalation in fruits and vegetables prices. The increase in food prices was sustained by the continued increase in international food prices and higher domestic demand linked to the award of pay rise in the public sector in 2006. The effect of the partial removal of domestic oil price subsidies in late 2005 has also continued to ripple through various sectors in the economy in 2006, including agriculture, which is heavily dependant on diesel fuel for irrigation.

Food prices in Yemen have increased rapidly in recent years, accounting for about two-thirds of total inflation during 2004-06. The most rapid increases have come from food categories that are primarily domestically produced such as vegetables, fruits and meats, while prices of imported foods such as cereals have risen less rapidly. Domestically produced foods also accounted for the largest share of food price inflation, with a combined contribution of 35 percent of total food price inflation in 2006 from vegetables, fruits and meats. A combination of supply and demand factors has been responsible for this trend. On the supply side, higher international fuel cost and rising demand have led to higher international food prices. In some countries like the USA, higher fuel prices have increased demand for the use of certain agricultural products in bio-fuels, thus reducing its availability for food consumption. On the demand side, Yemen's higher oil revenue, (and subsequently rising public spending) and rising remittances, combined with higher exports of Yemeni agricultural products to neighboring markets, have pressured domestic prices upwards. Over the longer run, the upward shift in prices of Yemeni agricultural products is thought to also have been influenced by the shift in the pattern of domestic crop production towards Qat, and the subsequent shortage of agricultural land and irrigation water.





CPI data on the first five months of 2007 show inflation tapering off. Following the large surge in September and October of 2006, where the all-items price index (raw data) jumped by nearly 6 percent (about 100 percent on annualized basis) in each month, inflation has been gradually easing in recent months. For the first five months of 2007, inflation rate dropped by 6.1 percent (based on cumulative changes), compared to an increase of about 15 percent for the previous five months, and 1 percent increase over the same period (i.e. January – May) of 2006. It is expected that for the rest of 2007, seasonal factors and the firming oil prices will push prices further up, with the likely outcome for the whole year falling to 10—12 percent.[5]

Figure 6: Changes in monthly price indices 2006-2007

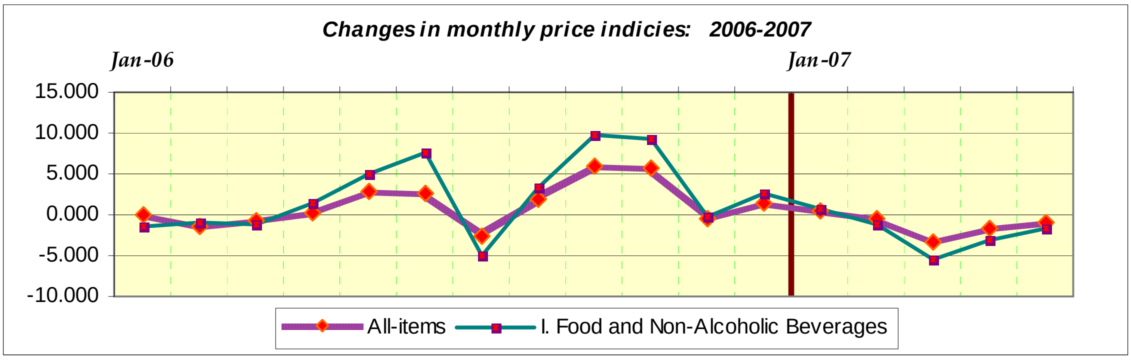


Table 2: Composition of General Government Finances (Percent of GDP)

	2004	2005	2006 - Prelim.	2007 – Proj.
Revenue	31.7	34.6	38.3	36.0
Of which: oil	19.7	23.5	28.9	25.7
tax	9.4	8.9	7.1	7.0
Expenditure	33.8	36.5	37.4	41.9
Current	24.1	26.6	28.4	32.1
Of which: wages and salaries #	9.2	9.1	10.3	12.2
Capital	8.2	7.9	7.7	7.9
Overall fiscal balance (deficit -)	-2.2	-1.8	0.9	-5.9
Domestic	2.1	1.2	-1.8	4.9
External	0.1	0.6	0.9	0.9

Note: *Figures in parentheses indicate a deficit. - #: figures include armed forces.*

The fiscal position maintained balance in 2006. Preliminary data for 2006 indicate improved fiscal position relative to 2005 outturn and in relation to the forecasted budget. The improvement was sustained by a higher-than-expected rise in revenue to 38.3 percent

[5] Another factor that will likely cause the annual inflation rate to exceed the current annualized monthly rates relates to the survey methodology used to construct the CPI. Surveys of food and vegetables are taken on weekly and monthly basis, depending on individual items. For other categories in CPI, surveys also vary from monthly to annual intervals. Thus for some items like housing and some services, which are expected to show increase in 2007, the effect on CPI will not show until later in the year.

of GDP and moderate growth in expenditure to 37.4 percent of GDP. Revenue was boosted by strong oil income, which despite declining production, increased by some 35 percent on the account of increased prices and larger government share in total output. Meanwhile, expenditure witnessed 20 percent increase boosted by rising expenditure on wages and salaries and subsidies. As a result, the overall fiscal balance recorded a small surplus of 0.9 percent of GDP compared to a deficit of 1.8 percent a year ago.

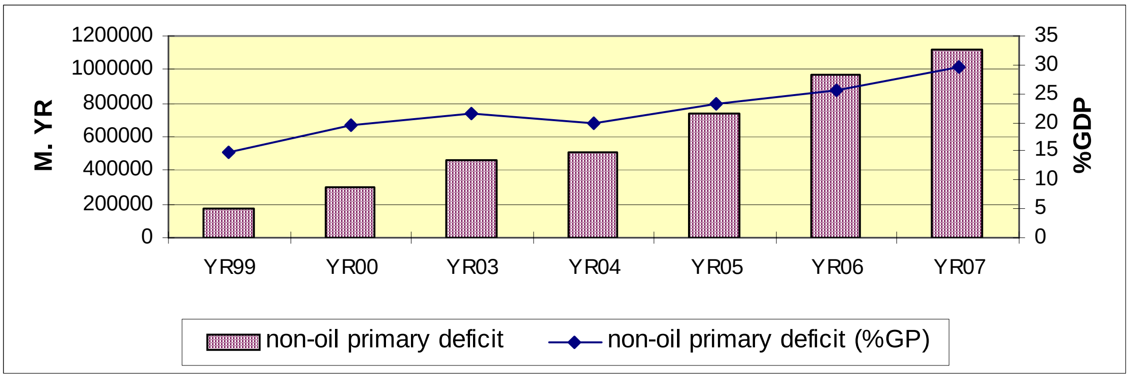
Table 3: Consolidated Budget for 2007

	2007* (Million YR)	% change over 2006	Contribution to incremental revenue and expenditure (%)
Total revenue and grants	**1372180**	**-4.6**	**100**
Total revenue	1352287	-5.9	128
Oil and gas revenue	977752	-9.9	164
Non-oil revenue	374204	7.6	-40
Tax	265404	-0.3	1
Direct	127378	-3.1	6
Indirect	138026	2.5	-5
Non-tax	108800	33.4	-41
Grants	19893	1253.3	-28
Total expenditure and net	**1596474**	**13.6**	**100**
I. Current expenditure	1220461	14.6	81
Wages and salaries	463284	20.1	41
Materials and services	152061	17.6	12
Operation and maintenance	21298	7.8	1
Interest obligations	96226	8.2	4
Transfers and subsidies	464213	10.8	24
of which : Subsidies	334568	8.3	13
unclassified current	23379	3.9	0
II. Development capital	301387	4.2	6
III. Net lending	74626	46.0	12
IV. Loan repayment	22548	12.4	1
Overall balance -Cash	***-224,294***	***-793.0***	***-134***

- *Based on revised budget estimates and reclassification using GFS2001.*

Budget estimates for 2007 project widening fiscal deficit to about 6 percent of GDP, underlying a strong decline in oil revenue and continued – albeit moderating– growth in expenditure. According to the budget figures, current revenue are expected to decline by some 6 percent, primarily reflecting the cut in oil revenue projections by 10 percent. Another factor expected to contribute to the decline is the shortfall in taxes due to the adoption of transitional measures to reform the system. On the expenditure side, about 40 percent of the increase comes from higher wages and salaries, in anticipation of the continued implementation of the national wage strategy, and some increase in hiring—largely related to ongoing efforts to decentralize government services. Rising expenditure is also affected by rising subsidies and transfers, primarily resulting from higher valuation of fuel subsidies. With 17percent increase to YR290 billion, capital spending represents the second largest source of growth in public expenditure. The increase, however, does not reflect the entire government commitments to co-finance pledges made earlier at the Consultative Group conference in London. The overall deficit in 2007 is expected to reach YR224 billion, equivalent to 5.8 percent of GDP, and slightly above the deficit limit set out under the DPPR. However, actual deficit for 2007 is expected to exceed these projections. On the upside down, oil prices are now likely to be some 15 percent higher than originally anticipated under the budget. On the negative side, oil exports, and government share, are likely to show significant drop below budget estimates. Meanwhile, expenditure, particularly in the view of the escalating military conflicts in the North, is expected to rise above budget estimates.

Figure 7: Development of Yemen's Non-oil Primary Deficit, 1999-2007



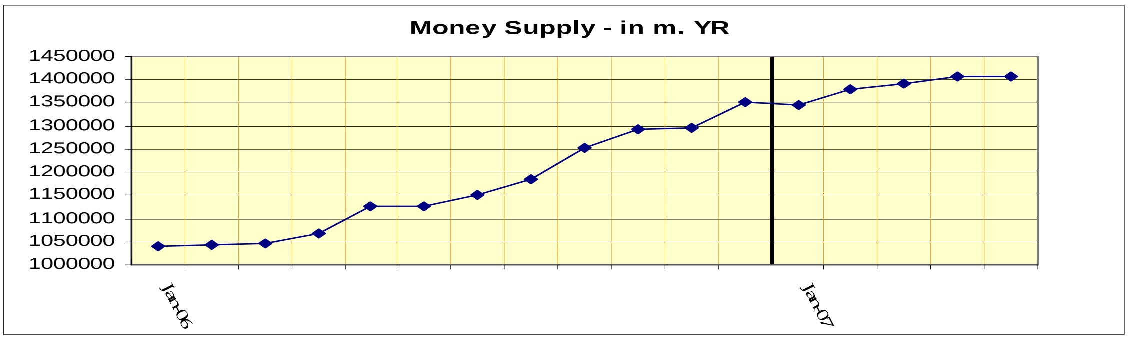
Yemen's fiscal policy continued to be on unsustainable track. High oil prices in 2006 have helped to turn the overall fiscal balance into a small surplus of 0.9 percent of GDP. However, the non-oil primary balance, the major indicator of fiscal sustainability, continued to deteriorate reaching about 25 percent of GDP, up from 23 percent a year ago. The trend is expected to continue in 2007, with the balance deteriorating further to 29 percent of GDP. Some progress in this regard is expected in 2008 as reforms in civil service administration, taxation, and other areas of public financial management are implemented more fully. Yet to achieve sustainability, the government must address longer-term structural fiscal policy measures and adopt explicit policy objectives and time bound plans to restore balance between non-oil resources and domestic expenditure.

In the monetary sector, broad money growth witnessed noticeable slowdown during the first five months of 2007.[6] After sharply increasing by some 28 percent in 2006, money supply growth began to weaken since early this year. By the end of end of May 2007, money supply increased by only 4 percent, or 9.9 percent on annualized basis. The slowdown comes on the backdrop of considerable deceleration in the growth of net foreign assets, which increased by less than 1 percent since the beginning of the year (or 2.1 percent on annualized bases for 2007 as compared to 38 percent for 2006), owing to the sharp decline in oil export revenues. Growth in money supply during the first five months of 2007 was primarily sustained by the expansion in credit to the private sector, which has

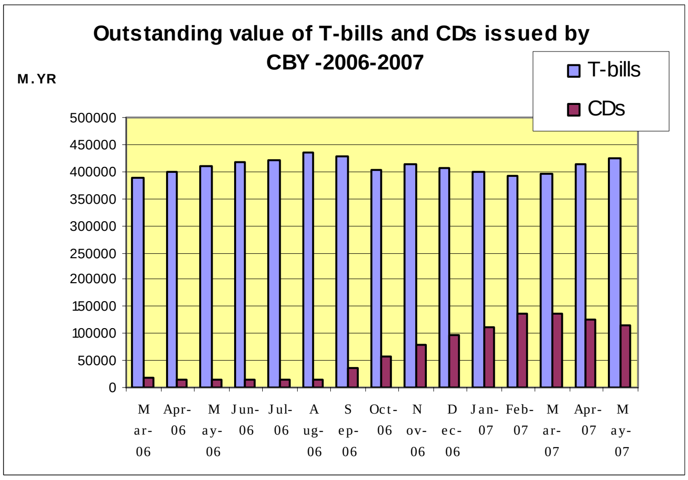
[6] Analysis is based on comparing recent months' figures with the stand at the end of 2006.

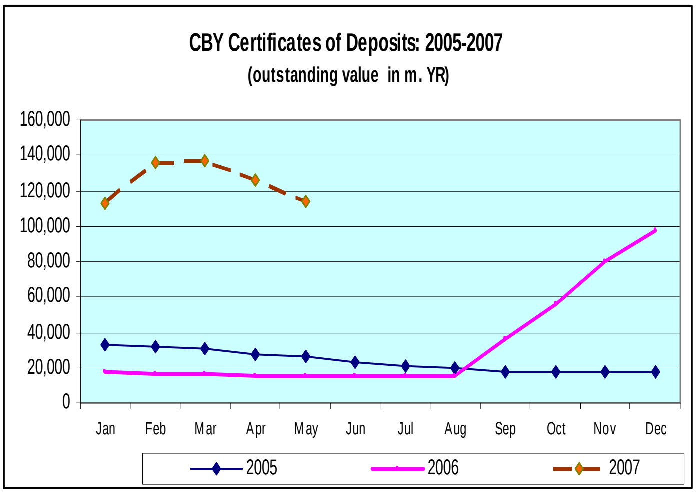
grown by about 56 percent on annualized basis since the beginning of the year, or by about 26 percent over May of last year.

Figure 8: Money Supply in M.YR



The slowdown in liquidity in 2007 comes on the backdrop of increased use of certificates of deposits (CDs) by the Central Bank. The extensive use of CDs to control liquidity is relatively new to the CBY. Until recently, the CBY relied primarily on the issuance of treasury bills for this purpose. However, and in view of the positive fiscal balance achieved in 2006, the Bank was driven towards the increased use of CDs as a primary instrument. This trend was sustained in 2007 as reflected in the graph below, which shows the pick in CBY issue of CDs, beginning from the third quarter of 2006 and continuing into 2007.





Current account balance reached a record surplus in 2006. On the strength of high oil prices that increased by 22 percent from previous year, to US$63 per barrel, export revenues reached a record US$6.7 billion despite the 8 percent fall in oil production. With weak output growth, imports barely increased resulting in a record current account surplus of 9.6 percent of GDP and helped in building country's foreign reserves to 13 months of import equivalent by February 2007. Recently, however, sources at the CBY revealed possible upward revision of imports by some 10-15 percent to reflect capital imports related to the LNG project. This is expected to bring the current account surplus down to US$1.2 or about 6.4 percent of GDP.

The rate of Yemeni Rial exchange versus the U.S. dollar has been slowing down in recent times. In 2006, the Rial depreciated by 2.9 percent, below the 3.6 percent recorded in 2005 and the 5 percent trend of recent years. This trend continued in 2007, with the Rial depreciating modestly to 199.05 versus the US dollar by the end May, equivalent to 0.3 percent since the beginning of the year (or to 0.7 percent on annualized basis). The deceleration trend in the nominal rate seems to have been prompted by the desire of the Central Bank of Yemen's to lessen the inflationary impact of weaker Rial — particularly as the dollar continues to wane versus other major currencies.

Work on the Yemen LNG project in Balhalf, started in late 2005, continued to progress satisfactorily. The project design includes a two-train plant of a capacity of 6.75 million tons per year (mty), with a total investment of about US$4 billion. The project will cover the construction of a pipeline from the Marib field to Balhalf, processing, liquefaction, storage, and loading facilities, and other support facilities. In addition, YLNG will construct a spur line from the Marib field towards Maber. According to current work plans, the project's first train is expected to come on stream at end-2008.

YLNG project is expected to utilize about half of Yemen's proven gas reserves. Under its terms of agreement with the government, YLNG is secured some 9 tcf of natural gas reserves from the Marib fields, equivalent to some 7.2 mty over a 25 year period. This amount represents about half of the current proven gas reserves in Yemen. This leaves the government to decide on whether to expand the LNG capacity or allocate the remaining reserves for domestic industrial and power usages. A new study by the World Bank argues that, from economic perspective, it would be more feasible to allocate the remaining gas for domestic consumption, particularly in power generation, which relies currently on fuel oil.[7] However, the study also points out that in order to implement this option successfully, the government will need to rely extensively on the private sector while undertaking significant efforts to improve the regulatory framework for the domestic gas market and improving the investment climate.

According to the study cited above, the coming on-stream of new gas-related projects after 2008 will not fully compensate for the fiscal revenue loss from falling oil production and exports. Yemen currently derives some 70 percent of its fiscal revenues from oil. This revenue stream, estimated at US$ 4.9 billion in 2007, will witness gradual decline until oil resources become fully depleted in 2014. On the other hand, the cumulative share of

[7] Yemen: A Natural Gas Incentive Framework, 2007.

revenue accruing to the state from gas production in LNG exports and domestic consumption over the period extending to 2028 is estimated in the range of US$14-18 billion, with the first 10 years of production yielding revenue to the state of less than 1 billion dollar per year. These revenues will be primarily generated from the export of LNG through YLNG and the substitution of natural gas for heavy fuel oil in power generation.

Yemen held its first post Consultative Group (CG) meeting on June 2007. Discussion centered on the progress in allocating the pledges made during the London CG Meeting in November 2006. Currently, these pledges stand at about $5 billion, (this includes additional $300 million pledges made after the meeting), with about 60 percent in the form of grants and the rest in concessional loans. The GCC share in these pledges amount to about $2.3 billion. A good progress has been made in the allocation of pledges; with about $3.1 billion (or 62 percent) have already been appropriated to specific projects (see attached table). The meeting concluded by discussing a draft partnership agreement between donors and government aimed to speed up the implementation of investment projects. The document includes a list of actions to be undertaken by the two parties over the next 6 months at which time a second post-London CG meeting is expected to take place.

Table 4: Total Financial Pledges for Yemen 2007-2010 - In million US$

Donor Country/Agency	Total Pledged	Grant component	Loan Component	Percent Allocated (%)
GCC Bilateral Countries	2300	2100	200	32
Multilateral Agencies	1847	222	1625	78
Other Bilateral Agencies	842	742	100	90
GRAND TOTAL	*4989*	*3064*	*1925*	*62*

Source: MOPIC

Yemen had a major investment conference in April 2007. The meeting, which primarily targeted private capital, came as part of ongoing efforts to build stronger economic ties with the neighboring Gulf Cooperation Council (GCC) countries. During the event, the Yemeni government revealed projects and investment opportunities worth some US$8 billion covering sectors such as energy, minerals, and tourism and infrastructure sectors. The government, also, announced plans to revamp the commercial and foreign investment laws provide new facilities and incentives to support investors, and take additional measures to simplify business procedures. The conference was attended by over 650 participants and has resulted in pledges worth some US$3.7 billion. It should be emphasized, however, that many of these pledges are in preliminary stages and final figures could be smaller, as already some investors, like the UAE's Emmar Company, have announced their withdrawal in recent weeks. However, being the first of its type and judging from the size of the attendance and the amounts made in pledges, the conference is considered to have met its objectives successfully.

With the prospects of receiving large inflows of assistance from the GCC, the government adopted a series of measures to improve its capacity to manage and absorb foreign aid. In November 2006, ahead of the Consultative Group meeting in London, the government released its first public investment plan (PIP) for the next four years. The plan, covering projects worth more than US$16.8 billion, was prepared in support of the third five-year development plan for 2006-2010. In further developments, the government has recently undertaken additional efforts to update the PIP and set up a more systematic approach at the Ministry of Planning to identify/prioritize capital projects and improve linkage to the fiscal budget. In related effort, the Cabinet in March 2007 issued a decree calling for establishment of Project Implementation Units (PIUs) in the Ministries of Electricity, Public Works, and Highways, to follow the successful path achieved by other PIUs.

III. OUTLOOK

Oil prices are likely to continue building strength for the rest of 2007, leading to further support to the economy. However in view of the expected decline in production, estimated at near 10 percent, oil's contribution to growth, fiscal revenue, and exports will fall. Therefore, the current account balance is likely to show to a small deficit of about 2 percent of GDP. Similarly, the fiscal balance will revert to a deficit of more than 6 percent of GDP, particularly in the wake of rising expenditures, in part due to rising costs associated with instituting civil service reforms and from increased spending on capital projects.

The growth outlook for the Yemeni economy calls for a slight improvement in 2007. While oil sector output is expected to fall by some 10 percent, growth in the non-oil sector will improve from increased capital spending. Local economic activity is expected to benefit from current investments such as Yemen LNG, Marib power, the Ras Issa refinery, and cement companies as well as the start up of new large investment projects. In addition, the inflation rate is projected to moderate from its 2006 highs, reflecting smaller rises in food prices and the waning effects of earlier fuel price increases.

The government is showing willingness to continue the reform process that was restarted in July 2005. The National Reform Agenda has achieved satisfactory progress, with the bulk of the agenda items completed or are in satisfactory progress. The government is currently drafting its second program of reforms with key focuses on the areas of political and economic liberalization and improving the investment climate. Currently, donors are actively supporting the government reform program. For instance, the Bank is supporting the government with an Institutional Reform Development Policy Credit (IRDPC)—a quick disbursing operation; and the US with Yemen's access to the Millennium Challenge Account.

While the short-term outlook seems manageable, concerns about longer-term prospects remain troubling. Yemen faces daunting challenges as oil and water resources continue to deplete and as the population grows briskly at 3 percent annually. Fiscal and debt sustainability will be vulnerable to hydrocarbon prices and slower growth. The country's progress in implementing reforms will depend greatly on continued donor support and interest.

IV. STRUCTURAL REFORMS AND POLICIES

Yemen made a modest progress in reducing poverty over the period 1998-2005. Based on 2005 Household Budget Survey (HBS), a recent World Bank report revealed that the percentage of poor declined from 40.1 percent in 1998 to 34.8 percent in 2005/06. However, in absolute-terms, the number of the poor is estimated at around seven million, same as in 1998.[8] Along with the modest overall improvement, the reduction in poverty was characterized by unbalanced regional outcomes. Most of the improvement occurred in the urban areas with the percentage of poor falling from 32.2 percent to 20.7 percent.

In rural areas, where 73 percent of the total population lives, the decline was much less noticeable with poverty headcount declining marginally from 42 percent to 40.1 percent.[9] The picture is slightly more optimistic in rural areas when using the distributionally sensitive poverty measures, such as poverty gap and severity of poverty indices. Using the poverty index gap for assessing the depth of poverty, the percentage of poor in rural areas declined from 13.1 to 10.6 percent, while the same index shown more improvement in urban areas falling from 8.7 to 4.5 percent. Another measure, poverty severity index has also shown rural poverty falling from 5.7 percent to 4 percent.

Table 5. Yemen's Poverty Indicators 1998-2005

	1998	2005
Population (000)	**15,650**	**20,100**
Rural	3,625	5,491
Urban	12,050	14,600
Share of total poor (%)	**100.0**	**100.0**
Rural	81.5	83.7
Urban	18.6	16.3
Poverty headcount (000)	**6,281**	**6,991**
Rural	5,120	5,853
Urban	1,170	**1,137**
Poverty headcount (%)	**40.1**	**34.8**
Rural	*42.5*	*40.1*
Urban	*32.3*	*20.7*
Poverty gap index 1	**12.09**	**8.93**
Rural	*13.11*	*10.6*
Urban	*8.67*	*4.48*
Poverty severity 2	**5.15**	**3.32**
Rural	*5.7*	*4.02*
Urban	*3.32*	*1.47*

*1. **Poverty gap index** measures the depth of poverty. It is the ratio of the average extra consumption required to bring poor people up to the poverty line.*
*2. **Poverty severity index** (squared poverty gap index) takes into account not only the distance separating the poor from the poverty line, but also the inequality among the poor.*

The pace of poverty reduction remains significantly slow compared to the MDG goal adopted by the government. The goal of

[8] Yemen Poverty Assessment Report, June 2007.
[9] . The picture of poverty situation in rural areas would look even more pessimistic if slightly higher poverty lines were used. By increasing poverty line by about 12 percent, the percentage of poor in the rural areas would have show an increase between 1998 and 2005/06.

reaching the first MDG adopted by the government will require quadrupling of the one percent per year rate of growth in per-capita consumption achieved over the last seven years. According to the report, the overall poverty gap index of 8.9 percent implies a monthly poverty deficit per capita of about YR 497. On average, a poor person should receive YR1431 a month to be lifted out of poverty10 - about a third of the mean consumption of the poor. Perfect targeting of the poor would have required only about 124.4 billion YR per year (about 4 percent of GDP) to fill the gap between the actual spending of poor households and the poverty line in order to lift everyone out of poverty. The severity of poverty index (which attaches greater weight to the poverty gaps of poorer families) at 3.3 percent is relatively high by the standard of MENA countries. The food poverty gap averages about YR 2100 for the food-poor, some 75 percent of the average consumption of the food-poor. To see this gap in perspective, the cash-transfer program, this currently has a maximum transfer of YR 2000 per family, not per person.

The National Reform Agenda, started in early 2006, is placing high emphasis on improving Yemen's governance system and fighting corruption. Central to the efforts to fight corruption is the establishment of an independent anti-corruption authority with the mandate to set-up further plans and policies to tackle corruption. In July 2007, the Parliament gave its final approval for the selection of Authority's board members from the list of candidates proposed by the Shura Council. Success in tackling corruption issue in Yemen is expected to lead to significant improvement in the investment climate and promote growth.

In June 2007, the government has officially joined the Extractive Industries Transparency Initiative (EITI). Given the significance of hydrocarbon revenue to the budget, the move will provide major contribution to enhanced transparency, better governance and accountability, and improved performance of public financial management. The joining the EITI, will require the government to undertake a number of actions. These include: i) the publishing of independently reconciled report of all financial transactions related to oil and gas between the government and oil companies, ii) establishing, in consultation with the oil and gas companies and civil society organization, an ongoing process for full verification and publication of payments and revenues related to extractive industries, and iii) reconciling payments and revenues data by a credible independent administrator, and using international standards.

Efforts to improve public financial management (PFM) continued in 2007. The PFM Reform Strategy, initiated in 2005, is being implemented through annual public financial management reform action plans. The agenda includes reforms related to budget preparation, execution, and implementation, particularly in the areas of budget classification and reporting, information systems, bidding and procurement, financial

[10] Per-capita poverty deficit is calculated for the population as a whole. While per capita deficit per month is YR 497, average deficit per poor person is YR **1,431**.

accountability, and budget decentralization. As a part of the 2007 action plan, the following activities are underway:

- Modernizing the budget classification and reporting system. Efforts are underway to develop a functional classification of expenditure under the GFS 2001 system and consolidate the extra-budgetary accounts into the budget.
- Benchmarking the performance of the public financial management system under Public Expenditure and Financial Accountability (PEFA) framework. This task is expected to be completed in the fourth quarter of 2007.
- Embarking on the development of Medium Term Expenditure Framework (MTEF), which establishes three-years rolling budgetary framework closely integrated with the longer term development plans.
- Establishing a treasury and debt management functions within the Ministry of Finance, with technical assistance received from the US treasury and, later, the IMF.
- Strengthening the internal financial controls and internal audits and implementing the new internal audit manual. In addition, work is underway to finalize the new Financial Law.
- Implementing the new procurement guidelines and finalizing the details of organizational re-structuring at the High Tender Board. Work also includes building capacity and training in various line ministries to use the new procurement and bidding documents.
- Building capacity in the Ministries of Finance and Planning to improve macroeconomic projections and analysis.
- Continuing efforts with budget decentralization. Local councils have recently been mandated to collect their own revenue and manage their expenditure.

Following months of discord, the Tax Authority, and the local business community reached an agreement on new mechanism for the implementation of the GST. Under the new deal, reached in April 2007, the full implementation of the GST for importers is delayed until end of December 2008. For these importers, the agreement also sets new procedures for: a) dealing with the arrears for the period from December 15, 2006 to April 30, 2007, and b) GST filing and assessment for the transitional period from May 2007–December 2008. During the transitional period, importers will pay the VAT based on two-months declaration (instead of monthly declaration afterwards) calculated using on one of two mechanisms a) assessment based the actual sales invoices, or b) in the absence of actual and realistic sales invoices, the tax authority will assess tax payments based on an agreed upon formula. As mentioned, the new provisions apply only to importers, while for locally produced goods; the GST tax is now being implemented fully with payments based on the actual selling invoices, submitted through monthly declarations.

In parallel with the effort to introduce the GST, the government is undertaking major revisions of the corporate income tax (CIT) Law. A revised CIT law is currently before

Parliament for approval. The revision, which will lead, among others, to the lowering of the effective tax rate from 35 percent to 20 percent, was initiated in response to the problems associated with the existing CIT in terms of low efficiency of revenue generation, high rate of evasion and corruption and significant disincentives for investment. The passage of the new law is expected to be followed by the issuance of its executive by-laws in the next few months. The authorities also announced plans to strengthen the capacity of tax administration in preparation of the implementation of the new law.

Reforms also progressing in the areas of civil service and public administration. To deal with the large and inefficient public sector, the government introduced the National Wage Strategy in 2005, which provides basic increase in wages and links further salary hikes to sector reforms and performance. It also established in the same year the Civil Service Fund (CSF) in order to help retrench excess labor in the public sector. The government also introduced in May 2006 a biometric identification system designed to eliminate "ghost workers" and "double dippers. Efforts have continued in recent months to implement these reforms, particularly in the areas of biometric identification system (expected to be finalized by year-end), and establishing a budgetary program for CSF for 2007-2010. The government has so far retrenched and benefited about 4000 employees under the CSF. The Cabinet has recently decided that Recruitment in clerical, crafts and helping services shall be stopped and the new recruitment should be limited to only the Specialized and technical jobs in health and education, and, clearly identified jobs for new organizations in Governorates and remote areas.

As a part of efforts to improve the enabling business environment, a new land registration law that takes into account the recommendations of the Land Policy Task Force, was submitted to Parliament in June 2007. The approval of the bill is expected to be followed with the appointment of an independent registrar, and the establishment of an organizational structure for the authority that sets up its mandate and functions vis-à-vis other authorities and agencies. The Law takes into account a number environmental safeguard measures, including the undertaking a clear classification, demarcation, and registration of environmentally sensitive areas. It also includes measures to mitigate the impact on vulnerable social groups, including the poor, and women.

The role of the financial system in Yemeni economy remains limited. The sector is dominated by the CBY and retail banks, which include 15 commercial banks and 2 specialized banks. There are also a number of non-bank financial institutions with limited role, such as insurance companies, money exchangers, pension funds, the Postal Savings System, and the Social Fund for Development. Meanwhile, other financial intuitions such as stock exchanges, investment companies, and other type of financial and capital market intermediary firms are absent. The banking system, despite its relatively large number, generally suffers from a number of weaknesses related to assets quality, capitalization, and operating and staffing efficiencies. Reflecting this environment, banks in Yemen have very low penetration ratio and the number of Yemeni citizens who have access to their services remain very low. Various reform efforts were attempted in the past but without tangible results. The current NRA, despite covering a broad range of issues and objectives (including the creation of the enabling environment for private sector development), pays little attention to the plight of the financial sector. The need for comprehensive reforms to strengthen the financial sector has been increasingly voiced over the recent months, particularly in the wake of modest macroeconomic results of 2006, and more recently, in the context of the investors' conference in April 2007.

A new leasing law, was approved in May 2007. The law is aimed to support the development of private sector by increasing access to finance, particularly for micro, small, and medium enterprises. With better access to finance, private companies can increase investment, raise production and create new jobs. The law, which was drafted by the Central Bank in coordination with the IFC, establishes a clear set of rights and responsibilities for the parties of a lease and a sets a new registry system for leased assets. In addition, it introduces speedy leased asset repossession procedures and sets out basic tax and accounting structures that create a level playing field between leasing and other types of financing, such as bank loans. Further, the tax authorities develop provisions on tax and accounting, as well as related legislation that are crucial to the sustainable development of leasing in Yemen.

Al-Amal Bank, the country's first microfinance bank for the poor, was officially inaugurated in July 2007. The Bank, which came after five years of the initial ratification of it establishment law, has a capital of US$ 10 million subscribed by the GOY (25%), the Yemeni private sector (25%) and AGFUND (50%). The establishment of the Bank, which is modeled on the success of Bangladesh's Grameen Bank, will be an important step towards combating poverty and absorbing unemployment through the provision of low cost business financing to the poor. Besides financing, the Bank will also provide a range of other banking and non-banking services including deposit-taking, technical, and advisory services. The next few months will be devoted to completing the procedures for launching the bank and providing practical services to the beneficiaries of the poor.

V. ECONOMIC AND SECTOR DIALOUGE

Mining Policy Project in Yemen In September 2006, IFC PEP-MENA signed an agreement jointly with The Ministry of Oil and Minerals to support the government further in its efforts to develop the country's mining industry through targeted support in the area of policy reform. The Project is divided into three key phases: Diagnostic Assessment, Change / Re-designing, and Implementation. The project has progressed well as the first phase is heading towards its final stages, it will be acquiring an accurate assessment of the current mining policy. The government is sustaining the project as it will help in reforming a new mining policy, which will facilitate in attracting the private sector to invest in Yemen's mineral resources.

Establishment of the Internal Audit Function in Yemen, A dialogue with COCA,CSMP and the MOF regarding the regarding the establishment of the Internal Audit Function in Yemen and also the re-engineering of COCA to be in line with the international standards. I being carried out.

Integrated Vision for the Education Sector The Bank and the GoY agreed to start work on *Integrated Vision for the Education Sector* coordinated by MOPIC and including MOE, MOTEVT, MOHESR, and MOCS. The first phase of the work is writing a Country Status Report (CSR) on the education sector, and the second phase is constructing the Integrated Vision for the education sector.

Girls Secondary Education Project A logical framework of the project was agreed upon in May 2007. A preparation mission is planned in July 2007 to detail the project components.

Conditional Cash Transfer for Girls and Other Innovative Schemes Under the Basic Education Development Project (BEDP), the Conditional Cash Transfer (CCT) scheme started as a pilot in Lahej Governorate in February 2007, aiming to promote retention of girls in grades 4-9. CCT scheme has been proved internationally a strong tool to encourage girls' enrollment especially among the poor, but Yemen is the first country among the low-income level to introduce this scheme. Two other innovative approaches are to be started in September 2007, which are: Whole School Improvement (WSI) which aims to provide school grants to replace the abolished school fees, and Female Teacher Contracting which aims to increase the number of female teachers in rural schools.

Simplification of business start-up procedures project. The International Finance Corporation has signed in July 17, 2006 an agreement with the Government of Yemen, represented by the Ministry of Planning & International Cooperation, to simplify business start-up procedures in Yemen. The project is organized by IFC's technical assistance facility in the Middle East and North Africa, PEP-MENA.

Yemen Leasing Project was launched by IFC in October 2005 with initial objectives to establish partner relationships with the Government of Yemen and develop an effective legislative framework for leasing in Yemen. This phase of the Project has progressed well, resulting in the Draft Law on leasing being agreed on among key stakeholders and approved by the Cabinet of Ministers of Yemen. The Draft Law has now been approved by the Parliament's finance committee and is expected to be ratified in April 2007.

Immunization Resource Tracking: The Bank is leading a dialogue with the MOPHP on the impact of financial resources planning, budgeting, and the flows of funds on program outcomes. In partnership with the USAID-financed Health Systems project (managed by Abt Associates, Inc), the Bank carried out preliminary analysis on immunization resource tracking.

Rain-fed Agriculture and Livestock Project. The main objective of this project, signed July 6, 2006 is to support the Ministry of Agriculture and Irrigation to improve the services to farmers in five governorates. The project will also provide support to the General Directorate for Animal Resources' to fulfill its core functions and to improve livestock owners' access to quality services and goods to enhance the health and productivity of their animals.

VI. NEW & NOTEWORTHY LAWS, DECREES, AND AGREEMENTS (APRIL-JUNE)

APRIL

a. The Cabinet

- Approving in its extraordinary session, the general agenda for the Government for the period of April 2007-April 2009 which reflected the implications oft he President's electoral program and included the items from the Third Five-Year Plan and the Poverty Reduction Strategy and made provisions for good investment climate.
- Making a decision to close all shops trading in arms, ammunition and fireworks all around Yemen, while traders are given one months for applying for an arms trading license from the Ministry of Interior according to Law No. 40/1992;
- Approving draft decree presented by the Ministry of Finance regarding international travel procedures for government officials and employees for official participation in activities abroad;
- Instructing the Ministry of Trade to introduce new mechanism for monitoring price movement for basic commodities in accordance with price stability requirements;
- Referring to the Parliament the loan agreement signed between Yemen and Arab Fund for Economic and Social Development in the amount of US$ 160 mln for funding the second phase of Sana'a International Airport project;
- Reviewing raining plan for Local Authority Leadership presented by the Ministry of Local Administration, which aims at developing administrative and institutional capacities of the local authority cadres all over the country.
- Issuing a decree No. 112/2007 to establish a supreme committee for FY 2008 Public Budget under the chairmanship of the PM which will be tasked with reviewing and approving general budget framework and setting indicative margins for different units.

b. Other Government

- An agreement was signed between the Ministry of Public Health and Population and World Food Program for launching Food Support Program for Women and Children for 2007-2011 at a cost of US$ 11.2 mln.
- USAID has granted YR 30 mln aid to basic health, education, agriculture and irrigation projects in Shabwa governorate.
- A survey conducted by the Yemen Female Media Forum presented the finding concerning violation of women rights and its causes.

c. Private Sector

- Two partnership agreements in oil production were signed between the Ministry of Oil and Minerals, Yemeni General Oil and Gas Corporation and the Australian Oil Search Yemen Ltd for exploration at blocks 7 in Shabwa and 74 in Hadhramaut

MAY

a. The Cabinet

- Issuing a number of resolutions regarding fixing prices of basic commodities, mainly foodstuff, including formation of a committee headed by the Minister of Interior to look into cases of price increases and other measures aimed at price stabilization;
- Approving the setting up a committee headed by the Prime Minister responsible for provision of adequate amount of energy from different sources, including renewable, to cover population and development needs;
- Approving a proposal submitted by the Minister of Planning and International Cooperation concerning preparation for the 37th annual meeting of Arab Financial Institutions and Authorities to be held in Sana'a in April 2008;
- Discussing Al-Shoura Council recommendations on social, educational and health dimensions of children's situation in Yemen and necessary remedies to counter negative phenomena via programs and policies;
- Forming a committee chaired by the Minister of Planning and International Cooperation to study Al-Shoura Council report on rain and flood water harvesting and introduction of modern irrigation techniques;
- Approving the holding an annual investment opportunities conference in addition to authorizing General Investment Authority to come up with One Window System vision;
- Approving a proposal presented by the Ministry of Local Administration regarding preparation of an Administrative Division draft law;
- Approving the 2008-2010 Civil Service Fund Program and instructed the Ministry of Civil Service to revisit workforce planning system.
- Approving the final version of National Youth and Children Strategy which aims at promoting young generation situation in different spheres of life and the declaration of the National Youth and Children Conference;
- Discussing the draft of the health insurance law proposed by the specialized ministerial committee;
- Approving a draft decree regarding amendment of the organizational by-law of the Ministry of Transportation;

b. Other Government

- GOY has initiated implementation of insurance system for Yemeni citizens living in Gulf countries.
- Fifth Meeting of Yemeni-Gulf Joint Technical Committee took place on May 5-7 to discuss issues related to Gulf support to development projects in Yemen.

- President of the Republic announced that Millenium Challenge Corporation approved granting US$ 35 mln to public sector and US$ 59 mln to security sector during his visit to USA.
- Japanese International Cooperation Agency (JICA) has launched the second stage of its Local Girls Education Initiative aiming at increasing girls' enrollment and qualifying female teacher.
- Germany has pledged to offer €11.8 mln assistance during the coming two years for support of the health sector in Yemen.
- Minister of Human Rights, Huda Al-Ban, has called upon government and non-government organizations support human rights and launch a campaign for putting end to all forms of discrimination against women.

c. Private Sector

- The General Investment Authority announces that licenses for 73 investment projects for YR 51 billion were granted this year, with industrial projects ranking first, tourist projects second and agricultural third.
- Al-Esaye Group of Companies has signed an agreement with China's CNBM Corporation in the amount of US$ 220 mln to build a cement factory in Batais with 1 mln tonnes per annum capacity.
- The Yemeni Gulf Oil Services Company will be carrying out an oil refinery project in Rass Essa at a cost of US$ 196 mln.
- A consortium led by Korean National Oil Corporation has won the contract for oil exploration in blocks 4 and 39.
- Yemenia Airlines has signed an agreement with Lufthansa Investment Company for building a maintenance unit for Yemenia fleet.

JUNE

a. The Cabinet

- Approving a draft decree regarding establishment of a training center for local authorities within the mandate of the Public Authority for Training and Institutional Development at the Ministry of Local Administration;
- Approving recommendations coming out of the annual revision of the Basic Education Strategy for 2007 which took place in first half of May;
- Discussing the memo presented by the Minister of Finance and the Minister of Communications and Information Technology regarding increasing the government share in the capital of the Public Corporation for Wire and Wireless Communications

b. Other Government

- Yemen has finalized the first phase of anti-money laundering efforts by the Supreme Anti-Money Laundering and Terrorist Financing Committee and now special questionnaire will be launched to evaluate the outcomes.

- The Third Sana'a International Trade Exhibition under the motto "Yemen Is a Real Economic Partner" took place during June 10-15.
- A credit agreement was signed between Yemen and Islamic Development Bank for the amount of US$ 10 mln for social development projects.
- IMF delegation has visited Yemen between June 1-13 to discuss prospects of cooperation with variety of government authorities.
- An agreement was signed between General Investment Authority and GTZ to prepare an investment map to improve investment climate in the country.
- United Arab Emirates have provided the Ministry of Health in-kind assistance including medical equipment and vehicles at the cost of US$ 272,000.
- Italy has pledged to allocate US$ 3 mln for preservation and development of Socotra Island during two coming years.
- European Union has pledged to designate € 15 mln to agricultural sector support during 2008-2009.
- An agreement was signed between Yemen and Qatar for implementing Al-Udain - Al-Jarrahi road at a cost of US$ 18.3 mln.
- An agreement was signed between Yemen and World Children Organization for an amount of € 254,970 to fund homeless children support project.

Seminars and workshops:

- A workshop on Economic, Social and Cultural Rights for NGOs was organized by the Human Rights Information and Training Center in cooperation with Amnesty International on March 21-23.
- The Third Arab Parliamentary Forum on Handicapped Legislation was organized by the Shoura Council, Ministry of Labor and Social Affairs and the US Repertoire on Handicapped during March 21-22.
- A seminar entitled "GCC Transformation, Investment and Business Opportunities in Qatar" was organized by the CAC Bank in cooperation with Doha Bank on March 22.
- A symposium on Financial Leasing was organized by the Central Bank of Yemen in cooperation with the International Financial Corporation on March 22.
- First National Symposium on Handicapped Conditions and Needs was organized by the Ministry of Social Affairs and Labour in cooperation with Handicapped fund during April 16-17.
- Third Forum on Statistical Capacity Building was organized by the Central Statistical Organization during April 17-19.
- A workshop on Girls Education was organized in Shabwa by the Ministry of Education in collaboration with USAID.
- A major conference on Discovering Investment Opportunities was organized by the Yemeni Government in cooperation with GCC during April 22-23.
- A workshop on the Ministry of Education Organizational Structure was organized by the Basic Education Development Project during April 25-26.

- DED Second Regional Conference was organized by German Development Service (DED) during April 25-26.
- A workshop on Raising Awareness of AIDS was organized by Al-Saleh Social Development Foundation in cooperation with the National Population Council on April 28.
- A workshop on Fighting Child Trafficking was organized by the Ministry of Social Affairs and Labour in cooperation with UNICEF during April 26-30.
- Celebration of International Midwives Day under the motto " Midwives Reach Out To - Wherever They Live" was organized by the Yemeni Midwives Association in cooperation with USAID on May 5.
- Second Conference of the Association of Senates, Shoura and Equivalent Council in Africa and Arab World was held on May 7-9.
- A workshop on National Plan for School Health was organized by the Ministry of Health and Ministry of Education in cooperation with WHO on May 13-15.
- The first scientific symposium on Rheumatic Fever Control was held during May 17-19.
- A symposium on "Role of Intellectuals in Democratic Reform" was organized by the Human Rights Information and Training Center during May 15-17.
- An advanced training course on Economic Studies for Project was organized by the Ministry of Planning and International Cooperation in collaboration with Arab Fund for Economic and Social Development during May 26-30.
- 9th General Session of Arab Group for Supreme Audit Institutions took place during May 29-31.
- Regional workshop on Fighting Violence Against Women was organized by the Yemeni Women Union in cooperation with General Arab Women Union during May 30-31.
- Women National Committee has organized a Seminar on Gender Mainstreaming for political parties and organizations on June 9. Objective of the conference was to introduce gender concepts and approaches into political activities.
- A preparatory workshop for the Second Regional Conference for Protecting Children from Violence took place on June 8-9.
- The Third Activity for Small and Micro Enterprises under the motto "Dreams Come True" was organized by SFD during June 10-16.
- A conference on School Nutrition was organized by the Ministry of Education and Ministry of Health in cooperation with TetraPack Arabia on June 6.
- The First Conference on Electrical Power was organized by the Ministry of Electricity and Energy during June 13-15.
- The Fourth Arab Microfinance Conference ("Sanabel") took place on June 13-14.
- Phase II of "Child To Child" Program was launched by Soul Organization for Women and Children in cooperation with Qatar Charity Association.

VII. WORLD BANK GROUP OPERATIONS IN YEMEN

Knowledge Services. Bank's key non-lending support includes the following studies: public expenditure management, civil service modernization, country financial accountability assessment, household energy supply and use, development of national gender strategy, environmental safeguard requirements, social protection strategy, poverty assessment, country social analysis and financial reform. 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. 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-June, 2007, there were [18 projects] under implementation, and three projects in the pipeline with total commitments of US$ 814.25 million of which US$394.29 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. To further improve 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.

Ongoing World Bank Operations in Yemen

(As of June 30, 2007)

Table 6: Cumulative Disbursement for Active Projects

				Cumulative Disbursement information				
Project Name	**Close Date**	**Loan $**	**Committed Not Yet Paid**	**Disb. $**	**Disb. %**	**SOE Disb. $**	**SOE Smple $**	**% Revd**
Groundwater & Soil Conservation	31-Oct-09	41.2	3.43	16.06	39%	4.99	0.25	5%
Rural Water Supply and Sanitation	31-Dec-07	23.9	5.02	19.93	83%	17.07	0.92	5%
Irrigation Improvement	30-Jun-07	24.6	3.9	17.36	70%	3.91	0.13	3%
Sana'a Basin Water Management	30-Jun-09	26.8	4.1	9.24	35%	3.26	0.21	6%
*Fisheries Res. Mngmnt & Conserv.	30-Sep-11	26.3	0.1	1.03	4%	0.03	0.00	0%
Urban Water Supply and Sanitation	31-Dec-07	158.5	0.45	68.32	43%	31.52	1.29	4%
Port Cities Development	30-Jun-07	26.9	3.64	12.82	48%	2.65	0.42	16%
Taiz Muni. Dev. and Flood Protection	31-Oct-07	54.1	4.57	48.16	89%	22.74	0.69	3%
Third Public Works	30-Jun-09	47.6	9.85	32.14	68%	NA	0.00	0%
II Rural Access Project	30-Nov-10	40.5	19.62	3.15	8%	0.00	0.00	NA
Rainfed Agriculture and Livestock project	30-Jun-12	21.3	NA	NA	NA	0.00	NA	NA
Power Sector Project	31-Dec-11	53.2	1.84	0.98	2%	0.00	NA	NA
Civil Services Modernization	31-Dec-07	34.1	7.48	22.55	66%	4.05	0.52	13%
Basic Education Expansion	30-Jun-07	64.5	7.75	59.47	92%	55.26	6.92	13%
Health Reform Support	31-Dec-08	33.8	0.64	15.10	45%	7.90	0.00	0%
Higher Education	30-Jun-08	6.2	1.02	2.21	35%	0.48	0.04	9%
Third Social Fund for Dev.	31-Dec-08	63.4	0.00	57.24	90%	NA	0.00	0%
Basic Education Dev.	30-Jun-10	67.4	22.38	8.52	13%	3.42	0.00	0%
		814.25	**95.77**	**394.29**	**0.48**	**157.28**	**11.40**	**0.07**