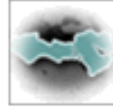




## C O U N T R Y   B R I E F



### Middle East & North Africa Region (MENA) - Yemen

#### Developing Yemen's Port Cities

In a move to strengthen Yemen's investment climate, encourage growth and create jobs in the port cities of Aden, Hodeidah and Mukalla, in January 2003 the World Bank approved a US \$23 million credit to the country. The loan is the first in a three-phase initiative to develop Yemen's coastal cities over a period of 12 years at a total cost of US \$96 million.

With a gross national product per capita of US \$460, Yemen's 18.5 million people remain among the poorest in the world. About 42 percent of households live below the poverty line, and approximately 25 percent are unemployed or underemployed. One of the challenges facing Yemen is to reduce its dependence on its rapidly depleting oil reserves by turning to non-oil sectors. Another important challenge for Yemen is attracting private investment.

The first phase of the Port Cities Development Program will focus on Aden, Yemen's commercial hub, whose strategic location at the tip of the Arabian peninsula once made it the second busiest port in the world. The program in Aden will begin with small-scale infrastructure investments, such as improving facilities at a local fish market and road works at an industrial estate, to elevate small business growth and build linkages to Aden's transport facilities. Training and investment planning will begin in parallel in both Hodeidah and Mukalla.

Yemen is a country of deep rooted tradition endowed with limited resources notably scarce water, limited arable land and declining oil reserves. Its population is young, predominantly rural (73 per cent) and rapidly growing. Nearly 50 percent of the population is below 15 and total fertility rates remain among the highest in the world. At this pace, Yemen's population could grow from 22 million today to 50 million by 2035. Yemen's GNI per capita stood at about US\$770 in 2006 and, despite some modest gains on urban poverty, about 35 percent of the population is poor: it remains one of the main development challenges in the Middle-East and North Africa region.

#### Current Challenges

**Yemen's economy** is dominated by the oil sector (27 per cent of GDP and 90 percent of merchandise exports) with also significant activities in services (45 per cent of GDP), agriculture (14 per cent of GDP), and non-oil industry (14 per cent of GDP). Unemployment has been rising, from 12 percent in 1999 to 16½ percent in 2006, as labor force growth has been outpacing job creation. Since the adoption of Yemen's Development Plan for Poverty Reduction (DPPR), the Government has scaled up its efforts to spur non-oil growth and create jobs in sectors such as agriculture, fisheries, natural gas, urban manufacturing and services and the financial sector. This requires addressing a number of cross-cutting constraints to private sector development including regulatory issues, infrastructure (electricity coverage and access to safe water reach respectively 30 and 36 per cent) and the match of available skills with the demand. Yemen is the Worldwide Top Reformer on the ease of starting a business but remains ranked 98<sup>th</sup> out of 187 countries in the *Doing Business 2009* survey

Accelerated efforts will be needed for Yemen to reach the **MDG goals** by 2015. Despite advancements in primary education enrolment rates (reaching 75% in 2007) and child mortality (reduced by 28% and 23% for under-5 and infant mortality respectively between 1990 and 2007), Yemen still ranks 153 out of 177 countries in the 2007 UNDP Human Development Index. Progress in reducing child malnutrition (46 percent), maternal mortality (366 for 100,000 live births), poverty rate (at about 35%) and gender inequality will need to be accelerated to assure the attainment of the MDGs.

**Food crisis, fiscal sustainability, governance issues, and qat** constitute some of the most pressing barriers to growth identified in Yemen's DPPR. Yemen is particularly affected by the global food crisis because of its limited endowment of water and cultivable land. This is partly reflected, along with current dry local weather conditions and oil prices, in the rising average inflation projected to run above 20 percent in 2008 - surpassing its 2007 and 2006 levels. Although, it has been implementing an extensive set of structural reforms since 2006, Yemen still has a long way to go in terms of improving several important aspects of governance. Finally, qat which absorbs a disproportionate amount of water and consumes 10% of household budgets is key.

**Yemen's DPPR also lays out measures to improve and conserve water supply.** Yemen has among the lowest rates of per capita freshwater availability (150 m<sup>3</sup> per capita per annum). Groundwater extraction has reached 130% of recharge and urban



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The World Bank approved US\$130 million in August 2002 to upgrade urban water supply and sanitation services in densely populated urban communities of Yemen.

Through improved operation and reduction of water losses, the project will increase water supplies and provide affordable sewerage facilities, which will enable wastewater to be reused for agriculture.

The urban water and wastewater sector in Yemen is confronted with major challenges in the face of increased water shortage in the country. The sector has been unable to cover expenses and cost of new investments. In addition, the National Water and Sanitation Authority and its branches are in need of more effective managerial and technical capabilities.

In response to these challenges, the Government of Yemen launched an Urban Water Sector Strategy in 1997 to decentralize services and achieve financial self-sufficiency by establishing water and wastewater corporations that are state-owned but operate independently on a day-to-day basis. The project supports the government's sector policy, placing emphasis on improving the financial viability, autonomy and the creation of opportunities for increased private sector participation.

and rural water supply and sanitation coverage is not keeping pace with the growth of the population. The population issue also adds to this resource sustainability challenge.

### World Bank Assistance

The World Bank endorsed, on June 15, 2006, a 2006-2009 Country Assistance Strategy (CAS) for Yemen, which focuses on helping the Government to make progress on four key pillars which are consistent with the key focal areas in the Government's Development Plan for Poverty Reduction (20026-2010):

- **Diversifying growth through better governance and better delivery of public services.** This pillar focuses on: (i) improving the business regulatory environment; (ii) strengthening road and power infrastructure; (iii) improving skills through technical education and vocational training and higher education; and (iv) improving regulatory frameworks and making appropriate public investments in key sectors (rainfed and irrigated agriculture; fisheries; manufacturing; and gas sector).
- **Improving human development through more efficient service delivery and improved safety nets.** This pillar focuses on improving: (i) access, equity and quality of basic education; (ii) access and quality of health; (iii) safety net programs; and (iv) water supply and sanitation
- **Increasing fiscal sustainability through improved public expenditure management.** This pillar focuses on improving: (i) revenue transparency; (ii) expenditure management (including through reducing fuel subsidies); (iii) public sector reform; (iv) public procurement; and (v) public financial management.
- **Increasing resource sustainability through improved management of water resources and reduced population pressure.** This pillar focuses on water resource management; and population growth.

As of September 2008, the Bank has approved 141 projects for Yemen, valued at about US\$2.6 billion (excluding grants and cancellations), of which about US\$2 billion had been disbursed, leaving an undisbursed balance of about US\$465 million in the current portfolio. The current portfolio has 19 active projects with total net commitment value of about US\$866 million. Sectoral composition (by value) of the current portfolio is as follows: 50 percent for infrastructure, (of which more than half for water infrastructure), 17 percent for agriculture, 23 percent for education/health/social protection and 10 percent for public sector governance.

The Bank also reacted to the food crisis situation by granting Yemen US\$10 million in June as part of its Food Crisis Global Response.

IFC total held portfolio in Yemen has increased to \$151 million from \$16 million in FY05 and is accompanied by advisory services.

All dollar figures are in US dollar equivalents. **September 2008**

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