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 Sana'a Office



YEMEN ECONOMIC UPDATE

Yemen Economic Update is a quarterly report that consists of several sections. The first section highlights major political and social developments. The second covers the macroeconomic developments. The third section provides a summary on structural reforms and developments; it also covers conferences, and donor activities in Yemen. The fourth section describes World Bank operations in Yemen and summarizes ongoing operations. Ongoing operations. The final section gives detailed information on World Bank publications and provides contact information.



SUMMARY

The government is taking additional measures to strengthen public support. Following the summer riots over rising food prices, the government adopted a number of measures to help ease tensions. In latest move, the government announced in March a new round of increase in wages, pensions and social welfare benefits intended to mitigate the effect of rising inflation. The President also introduced a new proposal for broad political reforms expected to bring further decentralization and increased regional autonomy.

However, security uncertainties continue to cloud the outlook. Early in the year, the government signed a new peace deal with the radical Houthi group in the Sa'ada governorate. A number of reconciliation efforts have been attempted in the past, but with little success. The latest peace initiative, sponsored by Qatar, continues to show promising signs, despite occasional snags. Fundamentalist groups are increasingly becoming a source of threat, particularly to western tourists and workers. The government has been responding to these threats with controlled measures designed to avoid broad confrontations. Finally, sporadic demonstrations across various parts of the country continued in 2008, since starting in summer 2007 over stagnant economic conditions.

Structural reform efforts continued during the past quarter. In civil services, the government continued to implement the biometric identification project and the second stage of the wage strategy, initiated in the latter part of 2007. Also, efforts continued to improve the investment climate, including legislative amendments in the areas of foreign investment, mining, and income tax, while steps were also taken to simplify the procedures for licensing and registration as well as filing income and sales taxes.

Macroeconomic performance was mixed in 2007. The performance largely reflects the falling crude oil output (by more than 12 percent) which has negatively affected overall growth, fiscal outturn, and balance of payments. Overall growth for 2007 is estimated at 3.6 percent, compared to 3.2 percent in the previous year. The non-oil output remained relatively unchanged from the previous year at about 5 percent supported by current public spending and private investment. In the fiscal area, the higher than budgeted tax revenue and earlier savings in spending have helped offset the impact of the supplementary budget approved in the third quarter. This brought the fiscal deficit to about 5.5 percent of GDP. The external sector showed deterioration with the current account balance reverting to a deficit of about 4 percent of GDP.

A reduction in the inflation rate was the main positive outcome in 2007, though inflationary pressures started to build in the second half of the year. Tighter public spending in the early part of the year and good seasonal rains helped maintain average inflation during the first half of the year at a negative rate. However, during the second half, rising food prices led by imported wheat and increased public spending on wages and salaries fueled inflationary pressures again. As result, the average inflation rate for 2007 came to about 12.5 percent, a significant drop from 18.5 percent in 2006.

The government announced a new round of increase in wages, pensions, and social welfare benefits intended to mitigate the effect of rising inflation. The new measure, introduced in March 2008, covers three categories. It increases wages for all civil service and military personnel by YR3000 per month. Second, it increases the monthly pension benefits for all retirees by YR1500. Third, it doubles the cash transfers under the Social Welfare Fund (SWF). Notwithstanding the effect of rising number of beneficiaries, the estimated total annual cost of the new package is about YR74 billion. The new measure is expected to widen the fiscal deficit and fuel inflation.

The outlook for 2008 is expected to improve on the strength of oil production and record international high oil prices. Yemen's overall growth rate in 2008 is likely to improve to 4.2 percent due to the slower decline in oil production (about 3.3 percent compared to about 12 percent in the previous year) and continued good performance in the non-oil sector at about 5 percent. The improvement in the oil sector in Yemen is expected to reflect positively on the fiscal and external sectors. The government fiscal balance is projected to witness a slight improvement due to higher oil revenue and improved tax collection. In the external sector, the current account deficit is expected to shrink to about 1 percent of GDP, compared to 4 percent in 2007. Inflation is estimated to reach 16 percent, edging up from its 2007 level, but remaining below the highs of 2006. Meanwhile, the government is expected to maintain the informal peg of the rial to the dollar at its current level of about 200 YR/\$, in response to rising food prices and falling dollar value.

I. RECENT POLITICAL AND SOCIAL DEVELOPMENTS

In the run-up to the parliamentary elections in early 2009, the government is taking additional measures to gather public support. Following the summer riots over rising food prices, the government adopted a number of measures (reinstatement of some retired army members from the South, direct importation of wheat to soften the inflationary impact of rising international prices, accelerated implementation of the second stage of the wage strategy and implementation of various measures to reduce power interruption) to help ease tensions. The President also introduced a new proposal for broad political reforms expected to bring further decentralization and increased regional autonomy. In a step designed to deal with tribal demands in the oil producing regions, the government announced plans to introduce quota guidelines designed to encourage the operating oil companies to hire local labor.

The Yemeni government is facing security challenges associated with terrorist groups and the fighting in the North. In early July, a deadly blast in a popular tourist center in the North left eight Spanish tourists and two Yemenis dead. Another attack, claimed by the same group, left two Belgian tourists dead in Hadramout. A few months later, another attack by the same group, left two Belgian tourists dead in Hadramout. In recent weeks, the capital Sana'a witnessed two separate rocket attacks, believed to have been carried by Al-Qaida linked group. On the positive side, a peace deal with the Houthi group was signed in February 2008 (the recent agreement follows the failure of an earlier accord reached in June 2007). The conflict, which dates back to September 2004, has witnessed various mediation efforts in the past.

Recent anti-corruption reforms are making impact. Reform attempts in this regard go back to 2003 with the establishment of a ministerial committee to coordinate and introduce proposals for legal and administrative measures to reduce corruption. For the next two years, progress was confined to the drafting of a national program to fight corruption and the joining of United Nations Convention against Corruption. Efforts began to build momentum in 2006 with the initiation of the DPPR and the NRA, with the agenda seeking a broader range of reforms, related the judicial, public procurement and financial management, external auditing, civil service administration, in addition to legislations designed specifically to combat corruption and increase transparency. In 2007, an important progress in this front was the passing of the anti-corruption law and the establishment of the Supreme National Anticorruption Committee (SNACC). Since its establishment in July 2007, SNACC has successfully activated the Financial Disclosure Law passed in 2006, which requires high-ranking officials to submit statements on their financial position (including all the ministers and the Prime Minister). SNACC is currently active with investigating some 120 public corruption files. These efforts have already led to the suspension of a major deal for nuclear power generation. SNACC also

announced the establishment of the National Alliance for Integrity and Combating Corruption in cooperation with civil society organizations. The Alliance aims to strengthen the engagement of the public in the design and implementation of the national anti-corruption strategy. The Alliance will hold bilateral meetings with various public agencies in April 2008, to negotiate the establishment of codes-of-conduct for each agency. Other plans include the undertaking of a baseline survey on the public's perception of corruption in Yemen. As a reflection of the progress in recent times, the legal authorities have also reported for 2007, the recuperation of some US\$50 million related to five major cases of tax evasion, and reinstatement of a number of the state-owned real estates and lands, which were seized illegally.

Decentralization efforts are progressing slowly. Decentralization, if well designed and supported, could be critical in improving governance and anti-corruption and diffusing political tension. The benefit of decentralization could be achieved by improving community oversight, increasing competition between governments, introducing tools of social accountability, and enhancing the demand for good governance. Yemen has been undergoing a process of decentralization over the past seven years. This process has been unwieldy but it has produced some tangible positive results. There are severe capacity issues, however. For local councils in particular, but also within public administration, capacity needs building up so as to play a pro-active planning, budgeting and monitoring roles envisioned for them. The timing is opportune for furthering the decentralization efforts and providing support for Local Councils and investments at district level, for several reasons: (a) the decentralization legal context is becoming more favorable, (b) donors and GoY can and should do better at reaching poor rural areas with the results of recent Poverty Assessment Report providing more accurate information on poverty situation in rural areas, and (c) the closely linked and mutually supportive relationship between decentralization and good governance agendas, should give added momentum to the former.

Despite the limited economic and job prospects, Yemen has been facing an increased inflow of illegal immigrants in recent years. Because of the conflicts in the Horn of Africa, the number of illegal immigrants traversing the Gulf of Aden has shot up dramatically in recent years. According to available data from UNHCR, some 30 thousand African migrants, mostly from Somalia, have arrived in Yemen in 2007 alone. The crossing takes two days in very dangerous conditions. Stepped-up patrols by the Yemeni coastguard led to fewer crossings in recent months but the number of lives lost have increased. It is estimated that some 1,400 illegal immigrants have died in 2007 alone. Many of the illegal immigrants consider Yemen a gateway to other parts of the Middle East and the West. Nevertheless, many also find their journey ends in Yemen, with prospects too poor to offer a better future. When these immigrants land in Yemen, some disperse on their own, while others seek UNHCR assistance to settle in Kharaz camp or in some of the designated urban settlements. The camp, which shelters 10 thousand refugees in cinderblock huts, is located on a desolate wind-scoured plain, where summer heat soars near 50 degrees Celsius. There are schools,

clinics and food rations, but no jobs. The other group of refugees, estimated at 100 thousand, are scattered in designated urban settlements with difficult access to health and schooling facilities and negligible employment prospects. To deal with the issue of increased inflow of immigrants, Yemen is organizing a regional conference on illegal immigration from the East Africa countries to Yemen. Precipitants will include some of the Gulf States and some European countries and the US. The conference, planned for June 2008, would focus on the issue of illegal immigrants crossing to Yemen from the East African countries and try to establish a common strategy for the problem.

II. MACROECONOMIC DEVELOPMENTS

Global Oil prices reached a record level in 2007. Oil prices steadily climbed to reach the US \$100 mark in November 2007 after having fallen sharply (to below US \$55 per barrel in January 2007). For 2007 as a whole, the average price for Brent crude reached US \$72.5, about an 11.3 percent increase over the 2006 average. The steady increase in oil prices throughout the year was supported by continued geopolitical tensions, particularly the Iranian-US standoff over the nuclear issue and the unstable situation in Iraq. Another factor that helped push prices higher was the weakening US dollar against other major currencies. Prices are already showing increased firmness in the first three months of 2008, with expectations of continued strength for the rest of the year. Based on official data, the price of Yemeni crude exports averaged US \$72.9 per bbl in 2007, compared to US \$63 per bbl in 2006. It is noteworthy that the discount margin of the Yemeni Crude relative to the Brent benchmark, which has been around US\$2 per bbl in the past, has witnessed a reversal in 2007, possibly as a result of the relative strength of demand in the Asian markets and changes in the quality of crude output towards lighter grades.

Figure 1. Brent– Europe Spot Prices (US\$/bbl)

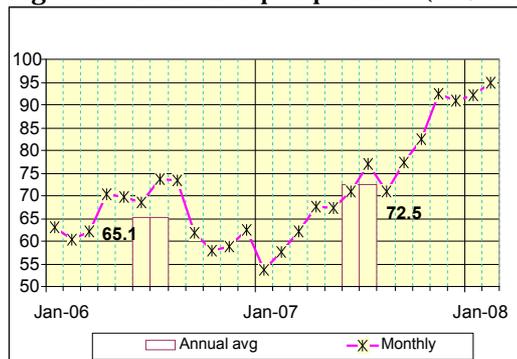


Table 1 - Oil Production, Trade (in million bbls unless otherwise indicated) 2006-07

	2006	2007	percent
Crude oil output (gross)	133.3	116.7	-12.5
Crude oil output (net)	130.4	113.3	-13.1
State's share inc. royalties	85.7	72.7	-15.2
Companies share inc. cost oil	44.6	40.7	-8.7
Exports of crude oil	91.5	76.1	-16.8
of which: State's share	50.9	36.7	-27.9
Domestic consumption of crude oil	38.6	36.8	-4.7
Consumption of refined products (million tons)	4.9	5.4	10.2
Exports of crude oil (in million US\$)	5765	5542	-3.9
of which: State's share (in million US\$)	1302	1155	-11.3

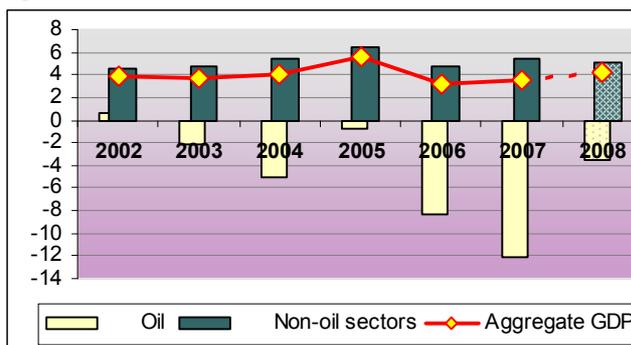
Source: Ministry of Oil and Minerals.

Yemeni Crude oil production witnessed a sharp decline. Preliminary data show that net production of crude oil (excluding losses) in 2007 declined by 12.5 percent to 113.3 million bbls. Oil production in Yemen has been declining steadily since 2001, losing about a quarter of its output over the last six years. The increased pace of investment in secondary recovery and exploration in the past two years has yielded little result in

arresting the rapid production decline. However, authorities expect some of these efforts to begin bearing fruit in 2008 with the rate of decline in production easing to only 3.1 percent. Meanwhile, exports of crude oil witnessed an even sharper drop of about 17 percent, due to the increased diversion of crude for domestic refinery needs.

Preliminary estimates indicate that GDP growth in 2007 reached 3.6 percent, a slight improvement from 3.2 percent in the year before. This came on the backdrop of good performance in the non-oil GDP at 5.5 percent (compared to 4.7 percent in 2006) which offset the sharp contraction in the oil output estimated at more than 12 percent. New public investment projects supported by pledges from CG donors, ongoing projects including Yemen Liquid Natural Gas, Marib Power, and investments in housing and tourism projects sustained

Figure 2 - Real GDP Growth in Yemen, 2002-08 (in %)



growth in the non-oil sector. It should be noted that current estimates of real GDP growth in Yemen, underestimate the significance of the oil sector. Current growth estimates are based on valuations using the base year 1990. Giving substantial appreciation in the value of oil output over the last few years (as compared to 1990), a rebasing of GDP growth towards more recent years will result in significant changes in the relative weights of various components with substantial shift towards the oil sector (nominal contribution of oil to GDP has increase from 12 percent in 1990 to about 32 percent in recent years). As an example, rebasing the GDP growth to the year 2005 (which witnessed a -8% change in oil output) will cause the overall growth rate to fall from 3.2 to 0.14 percent.

Table 2 - Annual Inflation Rate in Yemen 2001-2007

	Weight	2001	2002	2003	2004	2005	2006	2007
All-items	10000	11.7	12.5	10.8	12.5	11.4	18.4	12.6
Food and Non-Alcoholic	4381	13.2	7.5	16.7	19.0	18.9	28.6	23.2
Alcohol, Tobacco and	1484	17.0	43.2	6.3	15.3	0.3	8.7	-4.8
Clothing and Footwear	872	3.8	7.9	3.3	2.6	2.5	-1.6	2.1
Housing and Related Items	1327	7.7	8.5	10.8	2.2	5.5	5.2	2.7
Household Furnishings and	405	2.9	3.0	4.8	1.5	4.3	5.1	2.2
Health	267	12.5	5.9	4.1	7.2	7.2	6.8	2.3
Transport	426	16.2	3.3	3.1	1.9	12.8	20.4	0.7
Communications	19	5.9	7.7	1.1	2.4	0.1	-1.7	-2.2
Recreation and Culture	84	2.1	1.5	5.2	5.5	2.7	-1.0	-0.6
Education	52	11.8	16.2	0.1	-0.3	7.7	11.0	-0.1
Restaurants and Hotels	283	16.2	3.0	9.4	7.2	19.6	10.3	2.0
Miscellaneous Goods and	399	3.4	4.4	3.6	3.4	8.6	18.4	6.1

Source: CSO

According to official figures, Yemen's inflation rate in 2007 moderated to 12.6 percent, compared to 18.5 percent in 2006. The slowdown in inflation in 2007, which ran contrary to global trends, reflects a slower rise in the domestic prices of food, beverages, and qat items and to a lesser extent, a smaller escalation in housing cost. Good seasonal rains during the first half of the year and possibly active government interventions in the wheat market during the second half of the year helped food prices, which weigh about 44 percent in the CPI index. The impact of the seasonal factors were observed more clearly in the decline of the price of qat (which, unlike other agricultural produce, has no trade potential) by about 5 percent in 2007 as compared to an escalation of about 9 percent in the previous year. More monetary and exchange policies in 2007 seem to have also helped to curb the inflationary pressures, as the CBY continued to issue T-bills to mop up excess domestic liquidity (M2 growth slowed from 29 to 17 percent) and slowed the depreciation of the Yemeni rial exchange rate versus the US dollar to almost a stand still.¹ It must be cautioned, however, that the CPI figures for Yemen continue to suffer from a number of weaknesses with regards to compilation methodology and coverage.

Figure 3 - International trends of major agricultural commodities prices

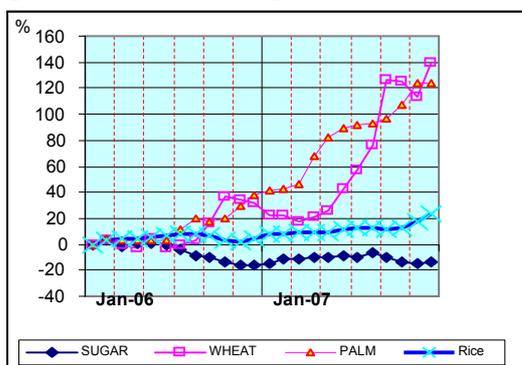
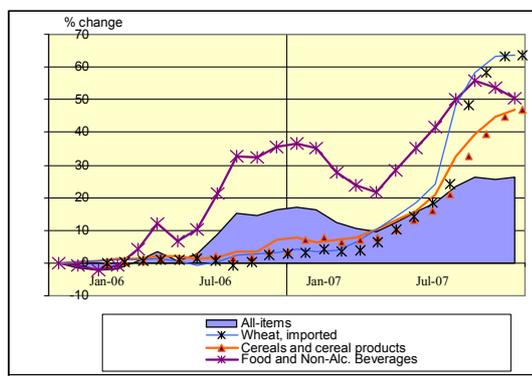


Figure 4 - Yemen: monthly price indices, 2006– 2007



The fiscal outturn for 2007 shows a deficit of about 5.5 percent of GDP. The deficit, which is slightly higher than projected under the budget, reflects the additional expenditure passed under the supplementary budget towards the end of the previous fiscal year (which mostly covers military wages and spending, subsidies and security related matters). Strong tax revenue of about 16 percent over the budget estimates has mitigated the effect of the rising expenditure under the supplementary budget. Meanwhile, oil revenue remained largely unchanged, with higher oil prices offsetting losses associated with falling production.

The 2008 budget, approved in November, projects a widening of the fiscal deficit to 7.8 percent of GDP. Budget estimates are based on a conservative oil price assumption of US \$55 per barrel. However, using an oil price assumption of USD\$85 per barrel, a recent projection by the IMF indicates that the overall deficit is expected to come to about 5.6

¹ The outstanding issues of CDs remained virtually unchanged at the end of 2007 from a year ago

percent of GDP, effectively unchanged from its level in 2007. The bulk of budget expenditure (71%) is earmarked for current items such as salaries (28%) and subsidies (18%). With regard to salaries, the new budget stipulates an increase of about 8 percent over the previous budget (about 3 percent over the 2007 actual), with the increase largely reflecting the application of the second stage of the wage strategy. The new budget also stipulates that spending on subsidies will decline by about 6 percent. This reflects the use of a conservative oil price assumption instead of an actual decline. According to IMF calculations, subsidies will rise in 2008 by some 51 percent (11.8% of GDP) if the more realistic price of oil is used. One notable feature in the new budget is the large allocation to capital expenditure, which is set to increase by 47 percent over the previous budget, therefore boosting its share in total spending from 19 to 26 percent.

Table 3 - Government Finances 2006-08 (In percent of GDP)

Item	budget	Prelim.	budget	Proj ¹
	2007	2007	2008	2008
Tax Revenues	5.6	6.5	6.3	6.7
Grants	0.4	0.3	1.2	0.8
Property Income,	23.1	23.3	19.2	26.1
<i>of which: oil revenue</i>	20.8	20.7	17.1	24.0
Capital Rev	0.0	0.0	0.0	0.0
Total Revenues and Grants	29.2	30.2	26.8	33.5
I : Current Expenditures	26.0	28.7	24.7	30.9
1. compensation of employees	9.9	10.4	9.6	9.6
2. Goods and services	3.2	3.5	3.2	3.2
3. Maintenance	0.5	0.8	0.5	0.5
4. Current Transfers and Loan Interests	11.9	13.6	10.8	17.0
a) Loan Interests:	2.0	2.1	1.9	2.3
b) Subsidies:	7.1	8.7	6.1	11.8
c) Current Transfers of which:	2.8	2.8	2.9	2.9
5. Other Current Expenditures	0.5	0.5	0.5	0.6
II : Capital Expenditures	6.4	5.7	8.5	7.5
III :Net Lending	1.7	1.3	1.3	0.8
Total Expenditures and Net lending	34.0	35.6	34.6	39.2
Deficit /Surplus	-4.8	-5.5	-7.8	-5.6
Deficit /Surplus (in billion YR)	-228	-258	-405	-293

1. Projections based on IMF calculations in December 2007 using oil price projection of US\$85 per bbl

In March 2008, the government announced a new round of increase in wages, pensions, and social welfare benefits. The new measure, intended to mitigate the effect of rising inflation, covers three categories. The first is to increase wages for all civil service and military personnel (with an estimated 1.2 million persons) by YR 3000 (US\$15) per month, thus adding some YR 44 billion to the annual wage bill. The second is to increase the monthly pension's benefits for all retirees by YR 1500, with an estimated additional annual cost YR 4.8 Billion (USD 24 million). The third is to double the cash transfers under the Social Welfare Fund (SWF), with an additional cost of YR 25 Billion. The

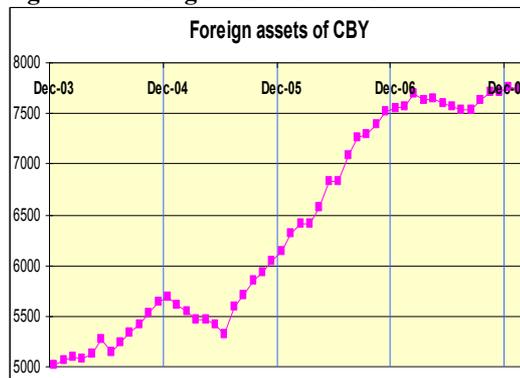
estimated total annual cost of the new package is about YR 74 billion. For 2008, these provisions will cost about YR 62 billion, thus contributing to widening the budget deficit from 5.6 to 6.8 percent of GDP (assuming an oil price of USD85 per bbl and holding other budget assumptions unchanged). With the presence of significant supply bottlenecks, the recent hike in benefits is likely to be associated with rising consumption and heightened inflationary pressures.

Broad money (M2) growth showed signs of moderation in 2007. After sharply increasing by some 29 percent in 2006, money supply growth cooled off to 17 percent in 2007. The moderation comes on the backdrop of considerable deceleration in the growth of net foreign assets, which have increased by less than 3 percent since the beginning of the year (compared to 32 percent for 2006) owing to the deterioration in oil export revenues. Therefore, growth in money supply during 2007 was primarily sustained by the strong expansion in credit to the non-government and government sectors (with the latter's expansion in the form of large withdrawals of deposits from the CBY). In relation to the beginning-of-the-year money supply, net claims on government sector increased by 11 percent, while claims on non-government went up by about 8 percent.

The Yemeni rial exchange rate versus the US dollar held stable in 2007. Under the current "managed float" exchange rate system, the Yemeni rial has witnessed steady depreciation versus the US dollar of about 3 per annum over the past few years. The depreciation of the rial slowed to a virtual standstill in 2007, at around 199 rials per dollar, as the authorities struggled to lessen the inflationary impact of the weakening dollar value against other major currencies. Yemeni monetary authorities are expected to continue to manage the rial exchange rate with the aim of striking a balance between controlling inflation and maintaining competitiveness of non-oil exports.

The current account balance for 2007 is expected to show some deterioration from the previous year. Following a surplus of about 1 percent of GDP in 2006, preliminary estimates for 2007 indicate a deficit in the current account of about 4 percent. The deterioration in the external account balance is caused by falling oil exports (with more than 90 percent share in commodity exports) and continued rise in imports, related in part to the ongoing LNG project. This deterioration comes after a number of consecutive years of surplus and growth in the country's foreign reserves. In 2008, as oil export revenues are expected to show some bouncing back, the current-account deficit will narrow to about 1 percent of GDP.

Figure 5 - Foreign Assets of the CBY 2003-07



Yemen's external debt amounted to US\$5.8 billion at the end of 2007, up by 6 percent from a year ago. Debt owed to Paris Club members was largely unchanged at US\$1.7 billion in 2007. Debts to non-Paris Club countries totaled US\$1.01 billion in December 2007, which represents a 5 percent increase from a year ago, with loans from Saudi Arabia and Kuwait, showing notable increase during this period. Financial assistance from multilateral institutions also grew over the course of 2007, with Yemeni debt to multilaterals rising by 10 percent, to US\$3.1 billion. Relative to GDP, Yemen's overall external debt has been showing steady decline in recent years, amounting to about 25 percent of GDP at the end of 2007. However, the country faces fiscal sustainability challenges ahead, as its oil output continues to fall, particularly with regards to developing alternative non-oil revenue and expediting structural reforms that could help to reduce budget expenditure. It is noteworthy in this regard to mention that a proposal for a new law on public sector debt has been awaiting parliamentary approval for more than two years. The proposed law limits the size of public debt (external and internal) to 80 percent of GDP, and sets new administrative procedures for national debt management.

Table 4. Yemen outstanding external public debt (In million US\$ at year end)

	2005	2006	2007*
Paris Club Countries	1,743.0	1,728.8	1,736.9
Non-Paris Club	911.0	959.7	1,003.0
Multilateral	2,514.7	2,781.7	3,075.1
Grand Total	5,168.7	5,470.3	5,815.0
% Change	...	5.8	6.3
In percent of GDP	30.8	28.7	24.6

*Preliminary

Source: CBY

III. STRUCTURAL REFORMS AND POLICIES

The government is undertaking a major review of its reform package. Under the first two years of the current Development Plan for 2006-2010, key targets for growth, fiscal discipline, human development, and poverty reduction were missed, while governance indicators showed some improvement. Owing to the sharper than expected fall in oil production, the economy grew at an annual average of 3.2 percent (compared to the Plan target of 7 percent) over the last two years. This growth led to negligible improvement in the standards of living of the population (which is increasing by 3 percent per year). Meanwhile, inflation remained high above target at an average of 14 percent. The fiscal deficit widened to about 6 percent of GDP in 2007 and the external balance remained in deficit at around 4 percent of GDP. Based on the outcome in 2006 and 2007, the government is currently reviewing the development plan for the remaining 2 years. As a result, the government is expected to redraft its current program of reforms covered by the National Reform Agenda (NRA) with key focuses on the areas of decentralization, political and economic liberalization, the investment climate, and fiscal sustainability.

Expenditures on fuel subsidies are becoming critically high. Petroleum subsidies in 2008 are estimated to reach US \$3.5 billion, about 12 percent of GDP, thus exceeding individual development spending, wage payments and social expenditures as shown in Figure 6. With health care under-provided and the rising need for additional resources for education and other social services, saving on fuel subsidies will become vital to maintain the basic provision of public goods. On the macro level, the rising fuel bill will spill into the widening budget deficit, rising debt and higher inflation. The last fuel price revision in Yemen was conducted in July 2005², since then subsidies have increased dramatically because of the increase in international prices. Figure 7 shows the ratio of domestic to international prices in June 2005 and December 2007 for gasoline, diesel, kerosene, and LPG. Despite recognizing the huge fiscal burden and the significant waste associated with current fuel subsidies, the government remains cautious about taking remedy measures. One of the overriding concerns is the impact of fuel subsidy removal on the poor, particularly under the current environment of high inflation and rising prices of basic commodities. Petroleum subsidies, despite their substantial leakages, are estimated to have protected 8 percent of the population from falling into poverty through the direct and indirect effects of keeping prices lower than they otherwise would have been. The other concern is the effectiveness of alternative social protection schemes in mitigating the impact of subsidy removal. Yemen needs to take a comprehensive approach that moves gradually to eliminate the current system of untargeted fuel subsidies (and introduce lasting flexibility in the domestic prices system to track

² The LPG market has been tight with shortages resulting in black market prices. The government revised the retail prices by 25% in January 2008. The shortage continues and the black market prices are higher still owing to capacity shutdowns in the domestic LPG manufacturing plant.

international movements), provide added incentives and resources to rationalize fuel consumption, and strengthen the social protection mechanism to ensure efficient delivery and targeting to the poor.

Figure 6- Budgetary Expenditure and Petroleum Subsidies

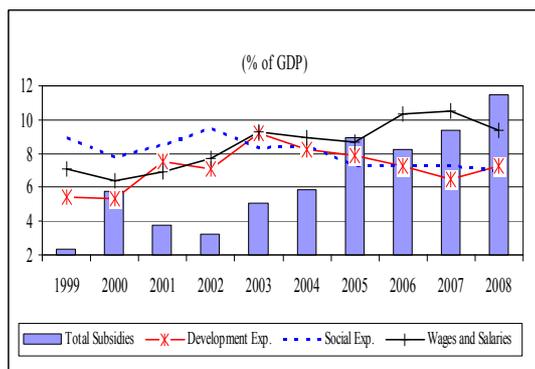
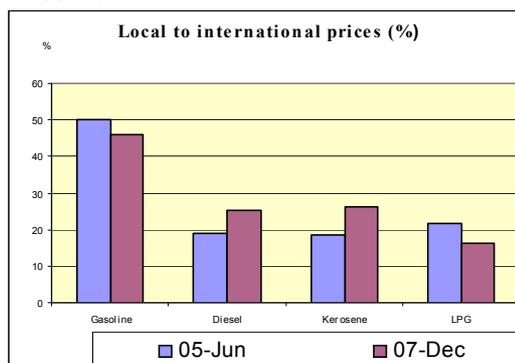


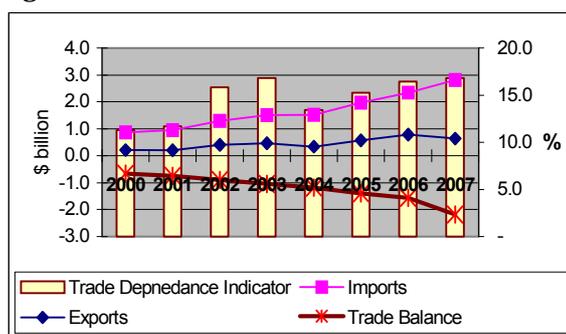
Figure 7 - Ratio of Local to International Prices of Fuel in 2005 & 2007



Yemen's trade with Arab countries has shown a steady increase in recent years. Yemen became an effective member of the Greater Arab Free Trade Agreement (GAFTA) in early 2005. The agreement currently focuses on the elimination of tariffs among the member states.³ Under the terms of the membership agreement, Yemen, admitted on special terms as an LDC, has preferential treatment in the form of a grace period of 5 years. During this period, Yemen, while gaining free access to other members' markets, will be allowed a phased reduction of its tariffs on imports of other members. At present, Yemen tariff concessions to other GAFTA members amount to 48 percent of its prevailing rates.

Despite increasing trade volume, Yemen's regional trade balance with its Arab neighbors has witnessed steady deterioration. The widening trade deficit reflects the weak competitiveness of the tradable sector in Yemen, the generous subsidies offered by some of its regional trading partners and the high re-export content of some of the goods imported from countries such as the UAE.

Fig 8. Trade between Yemen and Arab countries



In view of the deteriorating balance, Yemen has recently submitted a request to the GAFTA Secretariat for an extension of the grace period to 2015. The request, which is still under consideration, was justified by the sharp deterioration of the oil income and the larger than expected shortfall in non-oil revenue. Meanwhile, despite the deterioration,

³ GAFTA has an ambitious agenda to remove monetary, administrative, and quantitative non-trade barriers in the future. It also provides for the trade liberalization in services, research and technological cooperation, as well as intellectual property. However, owing to its limited resources and a lack of an effective monitoring mechanism, it has showed limited role in trade liberalization.

Yemen continues to lack a comprehensive investment/trade strategy to face the challenges associated with a more open trade regime.

Reforms are continuing in the Civil Service Sector. Because of the unification in the early 1990s, the civil service in Yemen became bloated with low pay, weak capacity, opaque hiring and promotion practices, and relatively few effective enforcement mechanisms. Since 2000, the government, with the help of international organizations, has embarked on a comprehensive program to reverse the earlier trend. Progress, despite being slow, has been made,

Figure 9. Trends in civil sector employment



particularly in arresting the growth of employment in the civil service. As a part of the efforts to adjust the pay scale, a four-phase wage strategy was introduced in 2006; the second phase was approved in October 2007 at an estimated cost of about YR80 billion. The implementation of the biometric identification system has been making steady progress, though slower than originally anticipated, with more than 90 percent of the civilian employees covered by February 2008. The Ministry now expects to complete this task by April 2008 for the civilian sector, September 2008 for military personnel. Other recent efforts pioneered by the Ministry of Civil Services include the compilation and publishing of a procedural manual for government agencies (some 2,000 processes for acquiring services in various public sector agencies were already documented and published). In addition, the establishment of executive by-laws of the internal audits units and the authoring of a manual for performance appraisal and indicators for various public sector organizations.

Efforts to improve the Civil Services administration have received additional boost. Financial support from international donors, including a supplementary IDA Credit for US \$14 million, will allow the government to undertake a fresh set of measures designed to scale-up activities related to the development of the Civil Service. The Bank support will focus on two dimensions(1) Improvement of Core Systems including establishment of HRM Framework, improvement of payroll procedures, rolling out AFMIS and ensuring reliability and consistency of personnel information management, and (2) Enhancing the effectiveness of government apparatus including establishment of merit-based civil service, reengineering of pilot government agencies, supporting the government mandate reform, improving the operation of innovation fund, and, improving the monitoring and evaluation of the performance of civil servants.

Yemen's investment climate has witnessed little improvement in recent years. Although the Yemeni business environment has seen improvements in some aspects over

the pervious years, globally it continues to score low ranking, in part owing to the fast pace of reforms in other parts of the world like Eastern Europe. Recent general reforms that could benefit the Yemeni investment climate include governance and anti-corruption; judicial system; property rights and land registration; and public administration. More business-specific reforms include the lowering of the effective tax burden on companies, the move towards flat sales taxes, and the simplification of business start-up in terms of time, compliance, and capital requirements. Meanwhile, efforts are underway to revise a number of relevant legislations in the areas of corporate income taxation (CIT), foreign investment, PPP operations, urban planning, and rural land administration. Following the release of the Doing Business Report for 2007, the government established an inter-ministerial advisory committee to provide recommendations on policies to improve Yemen’s overall ranking.

In addition to measures to improve the business climate, the government is seeking to strengthen the institutional and policy frameworks. One criticism of the reform efforts is the piecemeal approach, and the lack of a clear and cohesive investment strategy that would place it within the overall national development plan. In this environment, and with the presence of a number of organizations involved in investment promotion and regulation, it is hard to conceive a clear role for each agency (see table 5 for list of involved agencies). For this purpose, the government, with the help from FIAS, is undertaking a comprehensive policy and institutional reviews of investment strategy. An action plan has been envisaged with three key components: (i) review the legal/institutional framework for investment and ensure that various laws are consistent and transparent; (ii) develop an investment promotion strategy; (iii) implement a plan to increase competitiveness in certain sectors and proactively promote those sectors.

Table 5: Organizations Involved in Investment Promotion and Regulation in Yemen

	Promotion and Facilitation	Regulation
National Level	Office of the President Office of the Prime Minister GIA of Yemen Ministry of Trade and Industry Sector Ministries Supreme Council for Oil, Economy & Investment Investment Advisory Committee	Yemen Free Zones Public Authority Ministry of Lands Ministry of Interior (Immigration) Ministry of Finance (Tax, Customs) Ministry of Environment
Governorate Level	Office of Governor GIA Local Office Local Economic Development Department Aden Free Zone Authority	Department of Lands Zoning Authority Governorate Security Business Registrar

Source: FIAS

Reforms in the financial sector picked momentum in 2007. With the objective of fostering growth, mobilizing foreign and domestic capital, improving transparency and corporate governance standards, and increasing the efficiency and size of tax revenues, the government undertook a number of initiatives in the financial sector in 2007. In the banking sector, efforts included changes the banking law in order to ease entry conditions

for foreign banks and strengthen the oversight of Islamic banks. One Qatari bank was licensed in 2007, and several other regional banks are expected to follow soon. Efforts are underway to establish electronic information systems at the CBY for risk management and for an improved payments system. Despite the progress, the commercial banks in Yemen continue to suffer from weaknesses such as low capitalization, high level of NPLs, poor disclosure and adherence to CBY guidelines, and limited operational scope. In this respect, further efforts are needed encourage mergers among domestic banks, and with larger international banks. Other reforms in the financial sector include the introduction of the Leasing Law in 2007, which aims to increase access to finance, particularly for micro, small, and medium enterprises. Legislation, currently under preparation, is the Microfinancing Law that provides the legal framework for the operation of non-banking financial institutions in offering lending services to the poor. Other current plans in Yemen call for the establishment of a credit bureau, a corporate governance code, and a stock exchange and a securities and exchange commission.

The Parliament approved in March 2008 a new law on bank deposit insurance. The Law provides for establishing an independent insurance agency to protect small depositors (2 million YR or less) in the case of banking crisis or failure. The Agency will have a board chaired by the CBY Governor, with other members from the CBY, the Ministry of Finance, and the banking sector, and with a capital contribution from the MOF (YR 200 million), the CBY (YR 400 million), and the commercial banks (YR 10 million each). Under the law, commercial banks would pay a mandatory membership fee to the insurance agency, while adhering to strict guidelines for providing timely and detailed information about their financial position. In general, deposit insurance schemes, by protecting depositors (in full or in part) in the event of banking crisis, represent an important step towards strengthening financial system safety net that contributes to the promotion of financial stability and building confidence in the system. However, in the creation of this scheme there is a need to maintain a balance between the objectives of preventing solvency and liquidity problems of individual banks and avoiding moral hazard problems that give rise to imprudent banking practices. A sound deposit insurance scheme, therefore, would require robust banking supervision and a well-functioning legal system with adequate information and effective contract enforcement. Until now, Yemen had no explicit deposit insurance system, but the authorities have made statements that had implicitly promised to provide some protection to small depositors in case of bank failure. The recent Yemeni move towards an explicit insurance system requires taking parallel measures to strengthen the existing accounting, legal and judicial processes, otherwise it would merely shift the risks to the monetary authorities and heighten the moral hazards.

Yemen needs systemic improvement in the Rural Land administration. The lack of formal land administration system in rural areas has led to a de-facto dual system in Yemen. The formal system, to the extent that it is applied, is more relevant to urban areas. In rural areas, a mix of customary norms and Sharia'a principles governs much of land

administration practices. Private landowners normally do not utilize formal institutions, such as the land registry. In general, land in rural areas is not registered, either because the perceived benefits are outweighed by costs or because accessing formal institutions is not practically possible. In some cases, private landowners may utilize local officials, in this case an Amin (notary public), to register land transactions through certified documents as an alternative to formal registration. However, even this practice may not be widespread, and is almost certainly less so than in urban areas. Security of tenure of private land in rural areas is based primarily on the sense that members of rural communities are aware of the status of land as belonging to a specific person or family. In case of disputes, local courts are not likely to be utilized. Instead, parties to the dispute are likely to approach tribal leaders to conduct mediation or arbitration. Administration of state and Waqf land by GOY authorities is much weaker in rural versus urban areas. For these reasons, GOY authorities currently attach a higher priority to identifying and demarcating state and Waqf land in urban areas. At present, there are no comprehensive inventories of either state or Waqf land. The lack of clear status and boundaries exposes state and Waqf land to dispute and misuse. In rural areas, there are already disputes as to the status of land as state or tribal community land. Waqf land is a potential source of land that could be utilized by the poor and landless, if its status were clear and the land managed properly. Water rights, especially those related to *marahek*, are also becoming more contentious in rural areas, due in part to a weak legal framework and management system. While the GOY is aware of the problems related to land in rural areas, at present priority is placed on reforming land administration practices as they apply to land in urban centers. In general, there is little data available on most key issues related to land administration in rural areas. This includes levels of registration of private land. There is also data shortages on other issues, including disputes related to land and water; land distribution; landlessness; access to land for vulnerable persons; and levels of illegal squatting. Research and analysis of these issues would be necessary to provide a basis for developing reform activities. As would review of the mechanisms currently in effect in practice in rural areas, and the limited programs instituted by GOY institutions to address certain issues.

Despite the progress made in recent years, Yemen continues to exhibit significant weaknesses in statistical capacity. Among various macroeconomic data, national accounts data (SNA) shows noticeable need for improvement. Current efforts in this regard are focused on shortening the reporting lags and improving the coverage and compilation methodology, particularly for the informal sectors. Authorities are planning to rebase the constant SNA accounts to a more recent year from its current 1990 base. In terms of expenditure, improvements are sought with regard to estimates of private capital formation. Regarding price statistics, revisions are underway to update the CPI weights using the results of the most recent HBS and to reduce the number of commodities in the basket. Other price indices such as producer price index (PPI) and wholesale price index (WPI) are being prepared using additional surveys and strengthened capacity. The limitations in current price indices undermine the credibility of current deflators of

various components of national accounts. Fiscal data reliability and timeliness are weak -- particularly for detailed revenue, expenditure, and financing items -- despite substantial technical assistance from various donors. Fiscal data based on the 2001 GFSM methodology have been compiled but have not been widely disseminated. BOP data also needs improvements as many entries are estimated on ad hoc basis or using small sample surveys. In particular, data on FDI and selected items in services remain weak. Among the most reliable data is the monetary sector statistics produced by the Central Bank of Yemen (CBY), which are produced with lags of one month. Yemen has also significant gaps in human development indicators, poverty, unemployment and other labor market indicators.

IV. OUTLOOK

With expectations of firming oil, prices and a slower decline in crude output, the economic outlook in 2008 calls for some improvement. Yemen's overall growth rate in 2008 is likely to improve by less than one percentage point to 4.2 percent, reflecting the continued good performance in the non-oil sector of about 5 percent and the slowdown in oil production decline to about 3.3 percent (compared to 12.6 percent in the previous year). The non-oil sector should benefit from reforms taken in the previous two years and the higher flows of foreign capital, particularly from the Gulf. Improved outlook in the oil sector in Yemen is expected to reflect positively on the fiscal and external sectors. The government fiscal revenue should see modest improvement owing to higher oil revenue and continued progress in tax collection efforts. In the external sector, the current account deficit is expected to shrink to about 1 percent of GDP as compared to 4 percent in 2007. Owing to higher oil revenue, prices, and stronger domestic demand, the inflation rate in Yemen is projected to climb to about 16 percent.

Reforms are expected to maintain momentum in 2008. MOPIC is already preparing a midterm plan to evaluate the performance of DPPR during the first two years and to function as an interim or revised planning document for the remaining period (i.e. until 2010). The midterm plan will consider the changing circumstances that have emerged since the inception of the DPPR (such as the persistence of poverty incidence, the outlook of oil production, and the continued rise of world commodity prices) and revise its scope accordingly. The Plan objectives are expected to place special emphasis on economic diversification, growth, and fiscal sustainability. Efforts will focus on strengthening the financial sector development including increasing the number of microfinance banks, modernizing the local commercial courts, reducing red tape, updating foreign investment regulation and strengthening decentralization.

Medium-term outlook continues to be clouded. Though the macroeconomic outcome in 2008 is expected to show some improvement, the medium-term outlook continues to face the same serious challenges, particularly in view of the fast decline in oil production, rapid population growth, and slow, uneven progress in reducing poverty. Rising global prices for food products, coupled with domestic supply bottlenecks in food production and distribution will continue to keep inflation high. These results reinforce the need to tackle the structural weaknesses of the economy, particularly fostering non-oil growth that needs to be led by the private sector. It also calls for more efforts to enhance fiscal sustainability through increased reliance on non-oil revenue, as well as lower and better targeting of expenditures, which is currently burdened by inefficient fuel subsidies (about 11 percent of GDP) and a large wage bill.

V. ECONOMIC AND SECTOR DIALOGUE

I. Private Sector Development

Investment Policy and Promotion- (Pipeline) Assist the GOY to position itself to attract investment projects. This program is to establish a clear strategic vision for GOY for attracting and retaining investment, including the identification of target sectors of comparative advantage, and with a comprehensive action plan for promoting and facilitating investors' needs as well as improving investment climate

Industry Competitiveness- Special Economic Zones (SEZs) - (Pipeline) in close collaboration with the World Bank, this component is to assist the GOY to develop a sound legal and institutional framework for the SEZ. In addition, building on the wider strategy development work and complementing the sector targeted investment promotion work in component A.; this component will also assist the GOY to implement the industry-specific reforms.

Taxation Reform- Assist the GOY in simplifying tax system and introducing SME tax system. Yemen's Investment Code's practice of offering incentives through the Investment Code is outdated – fiscal incentives need to be removed from the Investment Code and folded into the Tax Code. Any review and reconfiguration of the SEZ regime would also need to be conducted with an understanding of and in coordination with overall tax reform efforts.

Mining Policy Reform Project in Yemen. In September 2006, IFC, PEP-MENA signed an agreement jointly with the Ministry of Oil and Minerals, represented by the Geological Survey and Mineral Resources, 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 has been completed successfully. In order to present the findings and recommendations of the assessment of Phase-I to high level decision makers as well as to a broader audience, workshops and a series of high-level client and stakeholders meetings are being held, Working groups (WGs) and sub-working groups has successfully been formed and identified from all relevant stakeholders for the second phase of the project to identify Legal and Fiscal texts, regulations, decrees, directives that need re-drafting. The objective of these events is to finalize with stakeholders the reform agenda of the mining legal policy and fiscal regime and create momentum for the planned reforms. The advisory group will collaborate with international experts with the government to reform the mining codes according to international best practices. In early 2007, international and local consulting firms were contracted to carry out a variety of assignments. A year later (2008), the project had produced its first solid results,

including an internationally competitive fiscal regime in the form of a mining tax section for the new Income Tax Act. In addition, a Mining Law is being drafted, and licensing procedures are being rationalized. Next steps will involve redesigning of Administrative Procedures, Mining Law/Regulation, designing of National Mining Strategy and Review of GSMRB in parallel association with awareness raising activities and lobbying discussions with parliamentarians to push new laws and fiscal changes through legislative process. By the end of Fiscal Year, we expect to have a new Mining Policy Framework package promoted at an investor international conference by no later than December 2008.

Small & Medium Enterprise management Training program (Business Edge): In order to address the gap in the supply of management training in Yemen, IFC's management training program, Business Edge, contributed to catalyzing structural change in the management training. The program has built the capacity of six training providers and trained 70 of their trainers, helping them to generate demand, and to make a profitable line of business out of SME-management training. Whereas the notion of SMEs paying for training did not exist, owners/managers of SMEs are now willing to invest in management training as is evident from the high numbers of trainees that enroll in Business Edge workshops. In the span of a year, 2616 owners/managers of SMEs have been trained and certified by Business Edge. Significant repeat rates are also an indication of the popularity of the workshops. To help stimulate the market, a declining subsidy scheme was set up in cooperation with the Royal Netherlands Embassy and the Social Fund for Development in January 2006. Encouragingly, demand has increased despite the gradual reduction in subsidy levels. In fact, the number of trainees reached 1030 owners/managers in April with the subsidy at only 50%, in comparison to the 159 owners/managers who enrolled in February at subsidy rates as high as 80%. Currently Business Edge is provided without any subsidies since April of 2007. The impact of the ***BE*** program in Yemen from January 2006 to April 2008 could be illustrated by the following:

II. Education and Health and Social Policy

Institutionalizing the Rapid Result Approach (RRA) Approach. Given the success of the RRA approach in supporting HRSP planning and implementation, the MOPHP requested World Bank support to expand using the RRA approach beyond the HRSP. A ministerial RRA team is assigned and the World Bank, in collaboration with WBI is providing guidance and capacity building to the team. The RRA core team will acquire further skills and confidence in applying the methodology by providing hands support to various teams in the ministry, facilitation quarterly reviews of the HRSP performance, and participating in external training in countries where WBI will be launching RRA in 2008.

Population II (Board Date expected to be October 2009). The project will build on the recommendations of the National Population Conference that was held in December 2007 to: (i) improve maternal and child health services and increase coverage of family

planning and reproductive health services with emphasis on integration of the delivery system of Primary Health Care (PHC) services in fixed facilities and outreach programs; and (ii) support monitoring and evaluation schemes for these programs at all levels. This would contribute to improve the level and distribution of key HNP outputs, outcomes, and system performance nationwide that will improve health status of the general population. A health system that delivers an integrated essential package of priority health services is a pre-requisite to respond to the high unmet need for family planning services and to address high maternal, child, and infant mortality.

Health Sector Reform HSR. Within the HSR framework, the Government has set its highest policy priority to guarantee access to an integrated package of essential preventive and clinical health care services to the vulnerable, especially mothers and children, and public health programs to the general population. The Government has launched the implementation of a national program of Integrated Essential Health Services (IEHS), which has a long-term plan, extending over 10 years, to support a fundamental change at the central level in terms of systems integration and at the governorate/district health systems level in terms of service delivery integration.

Integrated Essential Health Services (IEHS) Discussion regarding the preparation of the new health project has started. The IDA financed project is proposed to build on the IEHS that would strengthen and sustain commitment of integration by the year 2020, would inform its design, and harmonize and align support from development partners for this national program. The IEHS package of services would integrate maternal, child, and adolescent health services, and five public health programs, namely Malaria, Bilharziasis, school-based health, HIV/AIDS, and Tuberculosis.

National campaign for Bilharzias. In March 2008 the Ministry of Health launched a national campaign for Bilharzias which was financed (1.4 USD million) from IDA credit and WHO technical assistance. The World Bank is also involved in discussions with MOPHP and WHO on the provision of financial and technical assistance to support the National Schistosomiasis (Bilharziasis) Program to address the surge of prevalence of Bilharziasis in Yemen. Both urinary and intestinal Schistosomiasis are prevalent in Yemen, where the mountainous areas in the western part of the country appear to be the most affected. However, transmission of the disease is occurring in a large proportion of the national territory. More than 100 districts are entirely (85 districts) or partially (21 districts) endemic and more than other 100 are expected to be endemic.

VII. NEW & NOTEWORTHY LAWS, DECREES, AND AGREEMENTS

The Cabinet

- approved executive program of the Statistical Strategic Plan 2008-2011;
- reviewed the report by the supreme committee in charge of the Youth and the Poor Residential and Administrative Project;
- reviewed CSO report regarding the level of implementation of Basic Services Map Survey 2005-2007;
- approved draft republican decree for amendment of the Decree 35/2006 regarding setting up General Authority for Land, Survey and Urban Planning;
- approved executive cooperation program in the field of fisheries between Yemen and Mauritania;
- approved forming a committee for community participation in water resources management in Abyan Delta in the light of the report prepared by the Minister of Water and Environment;
- referred to the Ministry of Civil Service the draft decree regarding establishing legal awareness and monitoring department at the Ministry of Legal Affairs;
- reviewed the report by the Governor of the Central Bank of Yemen on monetary and economic development in 2007 compared to 2006, which indicated the exchange rate stability and maintaining 8% and 27% of GDP for internal and foreign debt respectively;
- approved the report by the Ministry of Finance regarding inventory and evaluation of Tehama Development Authority assets and liabilities as of December 31, 2005;
- referred to the Parliament a credit agreement signed between Yemen and Abu Dhabi Fund for Development in the amount of US\$ 75 mln for financing Hassan Dam Project in Abyan;
- approved draft decree presented by the Ministry of Civil Service regarding improvement of insurance and retirement procedures
- approved draft republican decree regarding establishing of the General Holding Corporation for Developing Investment in charge of management of the lands designated for investment and development projects;
- discussed the report by the Minister of Oil and Minerals regarding geological survey on basalt stones in Sana'a and Dhamar governorates used for marble production and decreed to move stone-breaking machines out of the capital city;
- reviewed the reports presented by the Ministers of Interior, Foreign Affairs, and Tourism regarding the investigation of the attack on Belgian tourists in Hadhramaut.
- reviewed the report by the Minister of Social Affairs and Labor regarding the mechanism to raise the number of beneficiaries from the social security;
- reviewed the report by the Minister of Local Administration about the preparation of the administrative division draft law;

- approved a cooperation protocol in the field of health between Yemen and Djibouti and a cooperation agreement in the field of investment promotion between Yemen and Spain;

Other government

- Supreme Committee for Tenders has approved nine tenders in the fields of industry, ports, electricity, roads, water, health, and education for bln.
- The General Investment Authority and Kuwaiti Ewaa Company have signed an agreement for establishing real estate and tourism project at a cost of US\$ 4 bln.
- The General Investment Authority and UAE Sino-Gulf have signed two investment agreements for promoting investment and implementing real estates projects for the estimated cost of the first phase at US\$ 150 mln.
- The General Corporation for Aden Ports and Dubai Ports International has signed an agreement for setting up a joint company to operate Aden Container Terminal.
- The Supreme Tenders Committee has approved tenders for ten development and education projects in eight governorates at the total cost of YR 6.2 bln during its first meeting.
- General Investment Authority in Aden has granted licenses for 28 projects at the cost of YR 9.8 bln in 2007, which created 855 job opportunities.

The Private Sector

- OMV, Austria, has announced its plan to dig 40 new wells in Block S2 in Shabwa by 2010.
- Yemen Commercial Bank has announced its net profit for 2007 at YR 2.1 bln compared to YR 933 in 2006.
- Yemeni General Corporation for Cement Production and Marketing reached 1.7 mln tons in 2007 and increase of 18% compared to 2006.
- Yemen Cooperative Agricultural Credit Bank (CAC) and Doha Bank have signed a MoU regarding setting up a Qatari-Yemeni Islamic Bank with a capital of US\$ 100 mln.
- Oman Oil Marketing Company has launched selling its oil products in Yemen in partnership with Nasir Company for Trade, part of Bazarah Group.
- The Arab Company for Tourism Development and Investment has completed 40% of the first phase of tourism complex in Ibb at the cost of US\$ 12 mln.

Development Cooperation

- The Arab Gulf Program for United Nations Development Organizations (AGFUND) announced the joining of Yemen to the Arab strategy for early childhood development sponsored by the program and adopted in 11 Arab countries. The project aims at improving the education ministry's programs and activities for early childhood development and at setting up a national strategy for this purpose.

- The French government provided a support program of democratic governance and security in Yemen. The Yemen program has four components, Justice, interior security, local administration, and supporting control and observation systems.
- Kuwait Society for Revival of Islamic Heritage will fund three social development projects in Abyan at a total cost of US\$ 4 mln.
- GTZ has offered €15 mln to a number of under-implemented projects in different fields in 2007.
- World Organization of Family Doctors pledged to construct three women institutes in Socotra Archipelago for raising health awareness and providing medical guidance.
- CARE International is supporting women programs and activities in six governorates for women empowerment, capacity building, and social justice.
- Human Rights Information and Training Center has called on NGOs, political parties and media institutions to launch a national campaign on women's
- The Ministry of Agriculture and Embassy of Japan have signed an achievement report agreement for 2006 with regards to Japanese aid to Yemen, which qualified Yemen for new aid in 2008.
- A Memo of Understanding was signed between Yemen, Netherlands and UK under which UK will offer € 5.2 mln as a contribution to the joint program in support of health sector in Yemen
- Yemen and International Fund for Agricultural Development (IFAD) have signed a credit agreement for US\$ 16.6 mln towards rainfed agriculture and livestock project.
- Japan has granted US\$ 1.3 mln for support of Aden Sanitation and Improvement Fund and Hadhramaut Malaria Combating Program.
- MOU was signed between the Capital Secretariat and UNDP on curbing global warming emissions in the framework of UN Convention on the Climate Change.
- Yemen and Abu Dhabi Development fund have signed a financial agreement for US\$ 70 mln for construction of Hassan Dam.
- A cooperation agreement was signed between Yemen and FAO for supporting National Locust Control Center.
- US Embassy provided financial assistance to Al-Rahman Institution for Mentally Disabled Children in the amount of US\$ 14,800.
- U.S. Embassy has pledged US\$ 1 mln to school renovation in Marib and Al-Jawf governorates.
- U.S. State Department's Middle East Partnership Initiative (MEPI) Program is funding a technical assistance to the High Tender Board's Technical Committee to develop the Public Procurement Law's implementing regulations/by-laws. Technical assistance will be provided by consultants from Booz Allen Hamilton, who is currently working with the HTB Technical Committee to complete the draft by-laws.

Seminars and workshops

- A workshop on Media Role in Fighting Corruption was organized by the Women Journalists Without Chains organization in cooperation with Middle East Partnership Initiative during January 17-19.

SPRING 2008

- A workshop on Food Safety and International Specifications was organized in Aden by the Public Authority for Specifications, Standardization and Quality Control in Cooperation with International Society for Measurement and Control on January 20-21.
- Launch of 2008 Development Report under the title "Agriculture for Development" was organized by the Ministry of Planning and Ministry of Agriculture in cooperation with the World Bank on January 23.
- A course on AIDS/HIV Awareness Raising was organized in Aden by Firdous Women Development Association in cooperation with UNICEF during January 17-23.
- A symposium on Payment Systems and Payment Orders was organized by the Central Bank of Yemen in cooperation with IMF during January 28-29.
- National Conference on Agricultural Chemicals was organized by the Ministry of Agriculture on January 27-29.
- Second Higher Education Conference was organized by the Ministry of Higher Education and Scientific Research during March 11-13.
- The National Women's Committee has organized a workshop to review the results of gender study implemented by the six government bodies under the funding from ILO and UNDP on January 15.
- A workshop on Improving Health and Educational Services to Refugee Children was organized in Aden by Swedish Save the Children in cooperation with UNHCR on January 6.
- The First Sociology Conference under the title "Science is the Foundation for the Present and Way to the Future" was organized by Sana'a University on January 5-7.
- A meeting on Risks of Dangerous Jobs for Children was organized by the Democracy School in cooperation with ILO on January 14.

Miscellaneous

- A committee to study negative environment consequences of oil companies' activities was set up by the Ministry of Oil.
- Yemeni exports via Aden reached YR 27.8 billion in 2007 registering the increase of YR 2.8 billion compared to 2006.
- Aden branch of Small Enterprises Development Fund has allocated YR 265 mln to finance small income-generating enterprises to be carried out in Aden, Abyan, Dhala'a and Lahej in 2008.

VIII. WORLD BANK GROUP OPERATIONS IN YEMEN

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 of March 31 2008, there were 19 projects under implementation, and six additional financing for projects in the pipeline with total commitments of US\$ 814.25 million of which US\$ 398.52 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 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.

**Ongoing World Bank Operations in Yemen
(As of March 31, 2008)**

Project Name	Close Date	Cumulative Disbursement		
		Loan \$	Disb. \$	Disb. %
Groundwater & Soil Conservation	31-Oct-09	41.2	20.36	49%
Rural Water Supply and Sanitation	31-Dec-07	23.9	21.95	92%
Irrigation Improvement	30-Jun-07	24.6	18.80	76%
Sana'a Basin Water Management	30-Jun-09	26.8	10.87	41%
*Fisheries Res. Mngmnt & Conserv.	30-Sep-11	26.3	3.00	11%
Urban Water Supply and Sanitation	31-Dec-07	158.5	84.09	53%
Port Cities Development	30-Jun-07	26.9	14.90	55%
Taiz Muni. Dev. and Flood Protection	31-Oct-07	54.1	51.50	95%
Third Public Works	30-Jun-09	47.6	35.80	75%
II Rural Access Project	30-Nov-10	40.5	10.50	26%
Rainfed Agriculture and Livestock project	30-Jun-12	21.3	2.00	9%
Power Sector Project	31-Dec-11	53.2	3.00	6%
Civil Services Modernization	31-Dec-07	34.1	23.39	69%
Institutional Reform Credit (DPL)	30-Jun-10	50.9	0.00	0%
Health Reform Support	31-Dec-08	33.8	21.01	62%
Higher Education	30-Jun-08	6.2	2.71	43%
Third Social Fund for Dev.	31-Dec-08	63.4	61.54	97%
Social Fund for Dev. III (supplemental)	1-Jan-09	15.0	2.00	13%
Vocational Training II	31-May-13	15.0	0.00	0%
Basic Education Dev.	30-Jun-10	67.4	11.10	16%
		830.70	398.52	48%

Donor Pledges for the PIP 2007-2010 in US\$ Million
(As of March 2008)

Donor Country/Agency	Pre-CG	During the CG	Post CG	Total	Grant	Soft Loans
1. GCC Bilaterals	331	2300	0	2631	1950	681
Saudi Arabia	181	1000		1181	1000	181
Oman		100		100	100	
Qatar		500		500	350	150
Kuwait		200		200		200
United Arab Emirates	150	500		650	500	150
Bahrain*		0		0		
2. Multilaterals	0	1732	85	1817	197	1620
Arab Fund for Socio-economic Development		700	85	785		785
Islamic Development Bank		200		200		200
World Bank (IDA)		400		400	75	325
OPEC Fund for International Development		20		20		20
UN System		90		90	90	
IFAD		70		70		70
Global Fund		32		32	32	
Arab Monetary Fund		220		220		220
3. Traditional Bilateral	0	695	186	881	781	100
European Commission		100		100	100	
United Kingdom		230		230	230	
South Korea		40		40	40	
Netherlands		91		91	91	
Germany		190		190	190	
France			130	130	30	100
Italy		12		12	12	
Japan**		23		23	23	
Spain			26	26	26	
USA			21	21	21	
Denmark		9	9	18	18	
Total	331	4727	271	5329	2928	2401

* Bahrain pledged support for Yemen in the form of TA

** pledge for the year 2007 only