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**MEMORANDUM OF THE PRESIDENT
OF THE
INTERNATIONAL DEVELOPMENT ASSOCIATION
AND THE
INTERNATIONAL FINANCE CORPORATION
TO THE
EXECUTIVE DIRECTORS
ON A
COUNTRY ASSISTANCE STRATEGY
OF THE
WORLD BANK GROUP
FOR
THE REPUBLIC OF YEMEN
May 3, 1999**

**Middle East Department
Middle East and North Africa Region**

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CURRENCY EQUIVALENTS
(Exchange Rate Effective April 23, 1999)
Currency Unit = Yemeni Rial
YR 1 = US\$0.0067
US\$1 = YR 149

FISCAL YEAR
January 1 – December 31

ABBREVIATIONS AND ACRONYMS

CEM	-	Country Economic Memorandum
CPI	-	Consumer Price Index
DEI	-	Development Effectiveness Indicator
EOP	-	End of Period
ESAF	-	Enhanced Structural Adjustment Facility
ESW	-	Economic and Sector Work
EU	-	European Union
FAO	-	Food and Agriculture Organization
FDI	-	Foreign Direct Investment
FIAS	-	Foreign Investment Advisory Service
FY	-	Fiscal Year
GDP	-	Gross Domestic Product
IDA	-	International Development Association
IDF	-	Institutional Development Fund
IFAD	-	International Fund for Agricultural Development
IFC	-	International Finance Corporation
IMF	-	International Monetary Fund
MENA	-	Middle East and North Africa
MOPD	-	Ministry of Planning and Development
NGO	-	Nongovernmental Organization
OED	-	Operations Evaluation Department
PMU	-	Project Management Unit
PSMAC	-	Public Sector Management Adjustment Credit
UNDP	-	United Nations Development Program
UNFPA	-	United Nations Fund for Population Activities
UNHCR	-	United Nations High Commission on Refugees
UNICEF	-	United Nations International Children's Emergency Fund
WFP	-	World Food Program

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YEMEN COUNTRY ASSISTANCE STRATEGY **FOR OFFICIAL USE ONLY**
TABLE OF CONTENTS

SUMMARY AND CONCLUSIONS.....i

I. COUNTRY CONTEXT

A. DIMENSIONS OF POVERTY.....1

Social indicators1

Physical indicators2

Participation/inclusion.....2

B. UNDERLYING FACTORS.....3

Political3

Social3

Economic4

II. GOVERNMENT STRATEGY AND ECONOMIC PERFORMANCE

A. THE GOVERNMENT'S ECONOMIC REFORM PROGRAM.....5

The Setting for Reform.....5

Government's Recovery Program.....5

B. RECENT ECONOMIC PERFORMANCE: A TURNAROUND CUT SHORT.....6

Stabilization.....6

Structural Challenges.....6

Endowments.....7

Recent Progress.....8

C. MEDIUM TERM PROSPECTS AND RISKS.....9

Base Case Economic Scenario.....9

External Environment.....9

Risks.....10

III. BANK GROUP COUNTRY ASSISTANCE STRATEGY

A. LESSONS FROM THE PAST.....10

The Bank's Past Assistance Strategy.....10

IFC Experience.....11

Outcomes and Lessons.....11

Impact to 1995: Marginal.....11

Since 1996: Better, But Room for Improvement.....11

OED Recommendations.....12

B. GUIDING PRINCIPLES FOR A NEW STRATEGY.....12

C. OBJECTIVES.....13

D. AREAS OF FOCUS.....13

Public Administration Modernization13

Private Investment for Jobs and Sustainable Economic Base.....14

Water Management for Environmental Sustainability and Social Peace.....15

Targeted Social Improvements for Poverty Alleviation.....16

IV. IMPLEMENTATION ISSUES

A. ABSORBING LESSONS OF EXPERIENCE.....18

B. PORTFOLIO MANAGEMENT18

Recent Improvement.....18

This document has a restricted distribution and may be used by recipients only in the performance of their official duties. Its contents may not otherwise be disclosed without World Bank authorization.

<i>PMU Dilemma and CAS Approach</i>	18
<i>Role of Resident Mission</i>	19
C. PARTNERSHIP.....	19
D. PARTICIPATION.....	19
E. PERFORMANCE MONITORING AND EVALUATION.....	20
<i>Strategy of Evaluation</i>	20
<i>Indicators</i>	20
F. LENDING AND NON-LENDING SERVICES.....	20
<i>Lending Levels and Triggers</i>	20
<i>IFC Services</i>	21
<i>Non-lending Services</i>	21
G. RISK MANAGEMENT.....	22

TEXT TABLES

Table 1. Selected Social Indicators.....	1
Table 2. Selected Economic Indicators.....	6
Table 3. Base Case Economic Scenario.....	9

TEXT BOXES

Box 1. Historical Background.....	3
Box 2. The Consultative Process.....	12
Box 3. Gender Strategy.....	15
Box 4. Criteria for Lending Levels.....	21

ANNEXES

ANNEX A1	YEMEN AT A GLANCE
ANNEX B1	YEMEN – CAS PROGRAM MATRIX
ANNEX B2	YEMEN – SELECTED INDICATORS OF BANK PORTFOLIO PERFORMANCE AND MANAGEMENT
ANNEX B3	YEMEN – BANK GROUP PROGRAM SUMMARY, FY99-02
ANNEX B4	YEMEN – SUMMARY OF NON-LENDING SERVICES
ANNEX B5	YEMEN – SOCIAL INDICATORS
ANNEX B6	YEMEN – KEY ECONOMIC INDICATORS
ANNEX B7	YEMEN – KEY EXPOSURE INDICATORS
ANNEX B8	STATUS OF BANK GROUP OPERATIONS IN YEMEN
ANNEX B9	CAS SUMMARY OF DEVELOPMENT PRIORITIES

MAP

YEMEN

SUMMARY AND CONCLUSIONS

i. The Country Assistance Strategy (CAS) for Yemen was formulated in the dual context of enormous development challenges and a demonstrated commitment by the Government to address them seriously. Despite dramatic improvements in the last twenty years, serious challenges remain: Yemen's social indicators (poverty, illiteracy, morbidity, malnutrition, high population growth) remain at unacceptable levels; water supply is fast becoming a critical constraint; much of the population is unserved by modern infrastructure; the economy is highly dependent on a single commodity, oil, whose production will soon begin to decline; and the capacity of the Government to address these and other problems remains seriously limited.

ii. Since 1995 the Government has shown laudable commitment to a program addressing many of Yemen's most basic problems. It has implemented a successful stabilization program and taken a number of strong measures in structural reform. These are beginning to have an impact on efficiency and sustainability, while providing much-needed basic services to communities across the country. However, further rapid progress in most spheres of government action is constrained by its own technical and managerial limitations.

iii. These limitations, and the breadth of Yemen's needs, place several demands on the CAS. Foremost among these is the need for selectivity in targeting IDA assistance, which has meant focusing sustained assistance around a few issues. In areas not covered by IDA financial assistance, our approach would be to (i) maintain analytical work and technical assistance as non-lending services; (ii) actively coordinate with donor programs to fill gaps where necessary; and (iii) strengthen the Government's budgeting and management to handle issues and sectors where there is no external assistance. And because the problems addressed by the CAS are urgent, the CAS must use the imperfect tools now available in Yemen, without losing sight of its longer-term objectives.

iv. These objectives, and the mix of interventions to achieve them, were selected through two parallel processes. The first was a series of consultations in Yemen spanning more than a year, involving a broad range of Yemenis representing government agencies, Parliament, tribal leadership, NGOs, business and professional interests, the labor federation, farmer groups, university students and professors, women's and youth organizations, the press, and political opposition. These consultations revealed a long list of well-justified Yemeni priorities, including some we had not expected (particularly on qat and population). The second was OED's Country Assistance Review (CAR), supplemented by numerous inputs from staff in IDA and IFC. The CAR found that the IDA program since 1995 had been much more effective than in the 1980-95 period, but it recommended a tighter focus of future assistance, particularly on (i) removing constraints to growth, (ii) addressing the basic problems of water sustainability and gender gap, and (iii) improving governance. From these two processes we derived four basic objectives:

- to create a modern public administration that provides public services honestly and efficiently while encouraging private enterprise;
- to attract diversified productive private investments that help the economy grow out of poverty and dependence on oil;
- to prevent an imminent absolute shortage of fresh water from creating unbearable financial costs and social disorder that short-circuit progress on the other objectives; and
- to create an early stream of social benefits, in education, health, and other most-valued services, which directly address poverty and gender gap, and fortify the benefits of the other objectives.

v. The centerpiece of Bank Group assistance, to which every credit would contribute, would be support and incentive to the Government's economic and administrative reform program, both to improve public sector management and to improve the environment for private investment. The need for the reforms is now widely recognized, but the continued credibility of the program depends on its producing visible benefits. The CAS, therefore, would represent a substantial increase in lending commitments, from an average of only US\$40 million p.a. in the pre-reform period FY94-96 and US\$129 million p.a. during FY97-99, to a proposed Base Case level of US\$162 million p.a. during FY00-02. Lending levels around this base, up to a High Case of US\$230 million p.a. or down to a Low Case of US\$80 million p.a., would be determined by performance in three areas: (i) implementation of the ESAF/EFF program agreed with the IMF; (ii) progress on public sector management reform; and (iii) quality of portfolio implementation.

vi. Assistance would be focused in the Base Case on (i) public sector management and reform through continuing a series of adjustment credits and support for private sector development; (ii) gender and poverty through projects in education and health that emphasize basic education for girls, and maternal and child health; and (iii) water sector management through improvements in efficiency of municipal and agricultural water use. In the High Case we would add four credits which complement these: an additional public sector management adjustment credit, a second Social Fund credit addressing needs particularly of poor communities and women, a rural access project, and an urban management project to strengthen local government capacity and services. New IFC investments in several sectors including agricultural export and finance are being considered, and would help both to test the reality of business environment reforms and to complement IDA credits.

vii. Non-lending services are planned with four functions. They would (i) follow up on public sector management reforms, monitoring implementation and reinforcing plans; (ii) provide the technical basis for reforms in important areas where lending is not planned, such as oil and gas, power, finance, and higher education; (iii) provide a strategic agenda in sectors where future lending may take place after FY02, such as cooperatives and land titling; and (iv) support special priorities for which in future we would expect donor support, particularly on a qat strategy and an anti-corruption institution. Though rather high in number, most non-lending services would be fairly small in scale.

viii. An important characteristic of the strategy is self-evaluation. The strategy calls for a regular review of the effectiveness of our assistance, not only through the normal Progress Reports but on an informal semiannual basis in which the Country Team and the Government would check progress and make mid-course corrections as needed. To inform this process, we will provide informal support to improve statistical data collection and analysis, and encourage better use of donor support in this area.

ix. The strategy entails important risks: (i) political support for serious public sector reforms may not be sustainable; (ii) institutional capacity may be inadequate to implement planned reforms; (iii) unforeseeable domestic conflicts may erupt, diverting attention and funds from development; and (iv) lack of progress in improving governance may undermine important donor support. The strategy's performance-based lending levels would help maintain political support and donor support, and the program includes a number of operations with medium or low risk and very high domestic support.

x. The following issues are suggested for Board discussion:

- Is the mix of assistance consistent with the development problems identified?
- Is the proposed level of assistance commensurate with the Government's performance and capacity?
- Is the proposed program of assistance adequately focused?

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I. COUNTRY CONTEXT

A. Dimensions of Poverty

1. Yemen has made great efforts since the reestablishment of peace and unity in 1994 both in terms of macroeconomic management and basic governance. It does remain, however, one of the poorest countries in the world, measured not only by its US\$320 per capita GDP, but also in almost every measure of quality of life. These measures are the ultimate gauge of development, and the central objective of the Country Assistance Strategy (CAS) for Yemen is to improve them in a sustainable way. The starting point in determining how to do this is an assessment of current social indicators, and an analysis of the factors behind them.

2. **Social Indicators.** Despite significant progress over the last 25 years, which places Yemen ahead of the average for comparator countries in several areas, Yemen still faces an enormous social challenge (Table 1). The Bank's Poverty Assessment (FY96) reported a poverty rate of only 19% in 1992, but subsequent economic reverses and cuts in consumption subsidies increased this rate to 25% in 1998. The unemployment rate is not known, but based on labor force growth it is thought to be high and rising. Yemen's 17 million people have very poor health indicators. With only 55% of the population having access to medical services, there are high rates of infant mortality, maternal mortality, under-5 mortality, child morbidity, and current malnutrition among children. These rates are all much higher in rural areas where about 65% of the population live. Despite improvement since 1970, some health indicators appear to have stagnated or worsened in the 1990s. Notable exceptions are the contraceptive prevalence rate and the total fertility rate, which have contributed to a substantial fall from the recent 3.7% p.a. rate of natural population increase.

Table 1: Selected Social Indicators

	Yemen		Least Developed Countries ²
	1970	Latest ¹	
Poverty rate (%) ³	NA	25	47
Infant mortality (per 1,000 live births) ⁴	186	96	106
Under-5 mortality (per 1,000) ⁴	NA	137	134
Child malnutrition (%) ⁴	NA	30	36
Maternal mortality (per 100,000 births)	NA	1,400	702
Contraceptive prevalence rate (%)	negl.	21	19
Total fertility rate ⁴	NA	6.4	6.0
Population growth rate (%) ⁵	-2.0	2.7	2.4
Life expectancy (years) ⁴	39	54	49
Adult illiteracy (%)	92	56	53
Female illiteracy (%)	97	76	64
Gross primary enrollment rate (%)	11	72	72
Access to safe water (%) ⁶	5	39	46

1/ 1996 unless otherwise specified.

2/ Forty-one poorest countries, average GDP/capita of \$260.

3/ Latest data are from 1996.

4/ Latest data are from 1997.

5/ Rate rose to 3.7% in the 1980s as infant mortality fell. Latest rate derived from 1997 Demographic and Health Survey and 1994-Census.

6/ Latest data are from 1996.

3. In education, the situation is similar: major improvement since 1970, but a slowdown in the 1990s at still low levels. The rate of adult literacy is 44% overall, and 24% for women. The primary school gross enrollment rate is 93% for boys, but only 50% for girls. The rates in rural areas are much worse, especially for girls – the 1994 census reported only 24% of rural girls attending school. Quality of schooling is poor: the net primary attendance rate, reflecting a high repeat rate, is only 55%. And in a recent standardized achievement test in mathematics, science and Arabic for fifth-graders, the shares of satisfactory passes were only 3%, 14% and 5%, respectively.

4. The *gender gap* in both health indicators and school attendance rates is one of the highest in the world. Unusual in the world, the child mortality rate for girls is 15% higher than for boys. In literacy, the gap between men and women has increased since 1970. Hours of work are also much longer for women, and generally unpaid, as female labor force participation is very low.

5. **Physical Indicators.** The most damaging physical indication of poverty in Yemen is the scarcity of water and good sanitation. Water supply per capita is about 2% of the world average and 85% below the amount needed for food self-sufficiency. Over 90% of the population has less than the minimum needed for domestic use (let alone agriculture). There are no perennial rivers, and the rapid depletion of groundwater in most of the country is already provoking unrest and threatening the future of irrigated agriculture. Only about 40% of the population has access to safe drinking water, and the lack of proper sanitation is a major cause of disease. In transportation, less than 10% of the road network is paved, the network does not reach a large share of the population, and most of it is in poor or very poor condition, such that an alarming share of the rural population is cut off from participation in the market economy and access to vital services. Telecommunications penetration is still very low, and electricity reaches only about 35% of the population.

6. **Participation/Inclusion.** Quality of life suffers in less tangible respects as well. On the positive side, informal social networks abound, especially those based on tribal affiliation, and there is a strong traditional social safety net of charitable support for the very poor. However, traditional sources of support and stability are under threat by rapid urbanization, as urban migrants leave stable rural social structures for less socially regulated or supportive urban ones. There are relatively few organizations for youth, and little opportunity for inclusion of youth in activities that create community spirit. Further, although *ad hoc* informal community organizations are often created to implement specific projects, there are relatively few stable associations for community betterment. Even in rural areas, the number of active local organizations and their membership are relatively low, and they are less active than they were fifteen years ago, when Local Development Associations were a dynamic development force and the worker remittances from the Gulf were high. Among Yemen's 2,080 subdistricts and 103,000 villages, there were until recently only a few hundred active and semiactive NGOs (mostly urban and donor-supported, but rarely service- or development-oriented), about 140 active Local Welfare Associations (LWAs – rural, development-oriented, but active mostly in the south and areas with relatively more wealth), and about 160 active agricultural cooperatives (the most numerous of Yemen's production cooperatives). With the advent of the Bank-supported Social Fund for Development, the NGOs and LWAs, which total several thousands, have begun to be reactivated. Female participation in these organizations is low or absent, however, and almost none have women in leadership positions. Local governments are not elected and have little authority or capacity to collect local taxes and carry out local services. Regional and tribal interests at times override national priorities leading to intertribal violence and undermining government power to enforce laws. The civil service could be a strong force for building community and nation, but its low pay, inadequate training, cumbersome procedures and management systems undermine its morale, its integrity, and its capacity to serve.

B. Underlying Factors

7. What accounts for this picture of profound and persistent poverty? In part it stems from Yemen's natural disadvantages of severe lack of water and very mountainous terrain. However, an interwoven web of human factors – political, social, and economic – have had a much greater effect.

8. **Political.** Yemen has had little political peace during the last 40 years. Both private investment and public planning and implementation have suffered as a result. Political factors perpetuating poverty fall into two groups:

- **Internal.** The union of North and South in 1990, which is otherwise a positive development, diverted considerable attention from economic development to political integration, and created a large overhead cost as the two civil services merged. Frictions surrounding the union led to a brief but devastating civil war in 1994, whose economic cost is estimated to have approximated three years of GDP. Weak government capacity to implement programs, enforce laws and provide security, associated lack of incentives and skills in the civil service, widespread corruption, absence of accountable local governments, and powerful tribalism all work against development efforts. These factors were manifested in a spate of riots, bombings and kidnappings during 1998.
- **External.** Yemen's position on the invasion of Kuwait prompted the expulsion of some 800,000 Yemeni workers from the Gulf in 1991, cutting worker remittances by over two-thirds, and cost it hundreds of millions of dollars per year in aid from the Gulf states and the United States. It also weakened community self-help organizations which had depended on worker remittances. Major assistance from socialist countries ended with the collapse of the Soviet Union. Political and economic relations with Saudi Arabia, Yemen's most important neighbor, remain uneasy, at considerable cost to Yemeni producers and traders.

9. **Social.** An array of social factors also encumbers development efforts.

- **Geography and history.** The North's mountainous geography contributed to centuries of relative

Box 1. Historical Background

Site of the ancient kingdom of Sheba and one of the original fonts of Arab culture, Yemen was in ancient times a prosperous land. Export of frankincense and myrrh and commerce between the Mediterranean and Indian Ocean littoral states supported the construction of sophisticated cities, forts to preserve order, and massive terracing of mountainsides for agriculture. Changing customs in the Mediterranean shrank the market for frankincense and myrrh, causing Yemen's economic decline in the fourth century AD.

Parts of Yemen were occupied by foreign powers – Abyssinians, Persians, Ottomans, and British – beginning in the sixth century AD. Their control was relatively loose due to the mountainous terrain, lack of good roads, and strong tribal structure. The Ottomans, who ruled the Red Sea coast and the capital, Sana'a, were expelled in 1919 by the Imam, who enforced an isolationist and strict Islamic regime. An Egyptian-backed coup in 1962 overthrew the Imam and established the Yemen Arab Republic. Internal conflict marked by coups and assassinations followed until Ali Abdallah Saleh, the current President, took power in 1978.

The British took Aden from the Ottomans in 1839, and gradually established a protectorate over the rest of south Yemen. Aden, administered from Bombay, became one of the world's major ports in the decades after the Suez Canal opened in 1869. From this cosmopolitan population came much of the leadership of a leftist nationalist movement that won independence from the British in 1967. The People's Democratic Republic of Yemen (PDRY) was founded on socialist principles, including nationalization of most formal economic activities, which (aided by the closure of the Suez Canal in 1967) led to the decline of Aden as a port and commercial center. PDRY's investments in human resources, however, have been of lasting benefit.

Oil was discovered in 1984. Following a devastating civil war in the PDRY, the withdrawal of support for the PDRY by the collapsing Soviet Union, and the recognition of economic benefits from complementarities in oil production and marketing, the two Yemens united in 1990. The north, with a population several times that of the south, became dominant after elections in 1993. Resentment in the south led to secession and civil war in mid-1994. The two-month war reunited the country but destroyed much economic infrastructure in the south, with a material cost estimated at US\$11-13 billion. Tribal and regional differences remain, and with the widespread ownership of firearms, they often lead to armed skirmishes.

isolation from the outside world, and continues to keep people fairly isolated and identified with tribe. More traditional beliefs and customs predominate there. The coastal areas and eastern region, for millenia the base of trade caravans and sea routes, are generally more open to the world. The South's 23 years of socialism, however, destroyed many of the welfare-promoting social organizations it enjoyed at independence in 1967.

- **Urbanization** nationwide, as noted above, continues to weaken the valuable development assets of social cohesion, participation, and sense of community.
- **Status of women.** Women work largely outside the market economy. Illiteracy, immobility, lack of control over fertility, limited access to credit or opportunities for participation in decisionmaking, and limited legal rights in practice all reduce the immediate quality of life of women, as well as their potential contribution to raising standards of living. Yemen's still-high rate of population growth, with the high social costs it entails, can only be corrected in a sustainable way by the education and empowerment of women. The substantial fall in population growth during the 1990s may reflect earlier improvements in the schooling of girls.
- **Qat.** Unparalleled amounts of time and resources are devoted to chewing qat, a leaf containing a near-amphetamine stimulant. Qat is a major source of rural income, but the estimated quarter of national income spent on qat could be invested in education, health, enterprise and other uses which create sustainable improvements in the quality of life. Chewing qat fills an inordinate amount of time which, before the rapid increase in qat consumption over the last 20 years, was used for sports, other social activities, or productive purposes. Long term use seems to be associated with cancers and other health problems. Qat use by women is associated with low birth weight babies and higher infant malnutrition and mortality. Despite these costs, it is now so ingrained in custom that until now the Government has made no effort to reduce its consumption. In April 1999, the Government announced its intention to formulate a program to reduce qat use.

10. **Economic.** While the above factors have economic dimensions, there are more direct economic obstacles to poverty reduction.

- **Private business environment.** Private investment outside the oil and gas sector and Aden Port is mostly small in scale. Potential large-scale investors face a web of unnecessary regulations and licensing, a legal environment which is often unclear or not consistent with international norms, and an often unresponsive or corrupt civil service. They are also discouraged by a lack of dependable jurisprudence, enforceable contracts, secure land titles, predictable taxation or tariff protection, and in some cases, physical infrastructure and physical security.
- **State ownership** and state-sanctioned monopolies in major economic sectors retard efficiency growth and new investment.
- The **financial system** does not provide effective intermediation of savings and investment, in particular access to credit for small producers, and ineffective prudential regulation has created the conditions for a banking crisis.
- **Road infrastructure** is difficult to provide for a large proportion of the society living in tiny settlements in rough terrain relatively far from trunk roads, holding back development of markets and suppressing business opportunities.
- The **security problem**, which is expressed in kidnappings, shootings and occasional bombings; is often cited by potential investors as a reason to avoid Yemen. Statistics do not indicate a major security risk, but the perception of insecurity is nevertheless a powerful disincentive. Since the

first deaths of kidnapped tourists in December 1998, this perception has been devastating to tourism, which otherwise could be a major growth sector.

- *Overdependence on oil exports* largely obscured the need for export diversification until the collapse of world oil prices in 1997. Over 90% of export revenue comes from oil and oil products. The skills, markets and infrastructure for other exports will take many years to develop.

II. GOVERNMENT STRATEGY AND ECONOMIC PERFORMANCE

A. The Government's Economic Reform Program

11. **The Setting for Reform.** The economic impact of the political crises outlined in para. 8 above was devastating. With the sudden cutoff of most external aid and the dramatic fall in worker remittances in 1991, the Government increased programs of consumption support, financed by bank borrowing and printing of money. Budget deficits rose from 8% of GDP in 1990 to 17% in 1994 (of which almost two-thirds was for an untargeted wheat subsidy), and annual inflation rose from 33% in 1991 to 71% in 1994. Accumulated arrears on foreign debt service reached 97% of GDP in 1994, and the exchange rate fell from 18 Yemeni Rials (YR) per US dollar in 1990 to between 120 and 165 YR/US\$ in 1994.

12. **Government's Recovery Program.** Faced with an unsustainable foreign debt burden and the real prospect of economic collapse, the Government in mid-1995 adopted a program of stabilization, structural adjustment, and social protection, supported by an IMF Stand-by Arrangement and, in 1996, a Bank Economic Recovery Credit. Its main elements:

- *Tax and expenditure reform.* Reduction of the dependence on oil revenue and rationalization of taxation. Reduction of the budget deficit through gradual reduction of inefficient subsidies and other cost-cutting, and rebalancing of expenditures towards investments and, within the recurrent budget, towards basic education and health, and operation and maintenance of past investments.
- *Price and monetary reform.* Decontrol of most prices, devaluation and floating of the exchange rate, unification of the dual exchange rate system, and shift in deficit financing from bank borrowing to auction of treasury bills.
- *Financial reform.* Improvement of the legal framework for loan recovery, prudential regulation, and competition in banking.
- *Trade reform.* Elimination of most import bans and licensing (with minor exceptions) and rationalization of tariffs.
- *Privatization.* Privatization of enterprises accounting for 70% of public enterprise employment by 2000, including some of the largest ones, and involvement of foreign investors in the process.
- *Poverty alleviation.* Improved targeting of subsidies, greatly increased expenditures on basic education and health (up from 4.6% of GDP in 1996 to 9.7% in 1998), expansion of public works, and establishment of substantial cash transfer, community development, and microenterprise programs for the poor.
- *Administrative reform.* Reduction of surplus employment in the civil service and acceleration of civil service reform efforts, with gradual decentralization of public administration.

13. This Economic Reform Program, revised periodically as political, administrative and technical factors permitted, squarely addressed Yemen's immediate crisis, as well as many of the factors underlying poverty noted above. Its immediate impact was positive, strengthened by Paris Club rescheduling in 1996 and continued strong financial support by the IMF and the Bank. It has encountered delays, however, in such areas as financial reform, privatization and administrative reform, reflecting not so much lack of will as weakness in implementation capacity.

B. Recent Economic Performance: A Turnaround Cut Short

14. **Stabilization.** Table 2 summarizes changes in key economic indicators since 1995. The economy rebounded strongly with 8.6% GDP growth in 1995, and grew at 5.6% and 5.2% in 1996 and 1997. An enormous increase in oil revenue due to improvement in the world price greatly assisted in the rebound. The inflation rate dropped from 71% in 1994 to 27% in 1996 and further to 6% in 1997. The Yemeni Rial stabilized at about YR130/US\$ well into 1998. Much of this stabilization was the result of the Government's fiscal and monetary policies, pursued under a series of IMF-supported programs. Through a combination of expenditure restraint, tax reform, and improvement in the oil price, the fiscal deficit was cut from 17% of GDP in 1994 to less than 1% in 1997. Rescheduling of external debt by the Paris Club in 1996 dramatically improved the debt-to-GDP and debt service ratios. The Government raised benchmark interest rates to positive real levels in 1996, and replaced bank borrowing with treasury bill auctions to finance the fiscal deficit, cutting broad money supply growth to 9% in 1996, vs. 20% in 1995.

Table 2: Selected Economic Indicators				
	1995	1996	1997	1998
	(annual change in percent)			
Real GDP at Market Prices	8.6	5.6	5.2	2.7
Real non-oil GDP	7.3	4.1	5.3	3.0
Consumer price inflation	62.5	27.3	6.3	11.1
	(in percent of GDP)			
Government revenue	21.3	38.4	37.7	30.4
<i>Of which, oil revenue</i>	10.4	29.7	25.8	16.2
Government expenditure	28.2	41.9	40.0	36.8
<i>Recurrent</i>	24.9	34.8	32.2	30.8
<i>Investment</i>	3.3	7.1	7.8	6.0
Overall fiscal balance	-6.9	-3.5	-2.3	-6.4
	(in millions of US dollars)			
Goods exports, f.o.b.	1,980	2,263	2,264	1,517
<i>Of which, crude oil</i>	1,735	1,976	1,935	1,231
Overall balance of payments	-553	-393	139	-471
	(in percent of GDP)			
Official external debt				
Before rescheduling	184.0	161.5	78.4	88.2
After rescheduling			68.5	69.9
Exchange rate (EOP, YR/US\$)	127.1	126.9	130.5	141.7

15. This turnaround was cut short by the sharp fall in the price of oil in 1997. In 1998, GDP rose by only 2.7%, overall export revenues fell by 28%, and public revenues fell by 22%. The Government reacted swiftly to minimize macroeconomic instability by cutting expenditures, holding the fiscal deficit to 6.4% for the year. Broad money supply growth was only 4.5%, and the inflation rate was held to about 11%. Despite the political costs, the Government phased out administered prices and made deep cuts in untargeted wheat and diesel subsidies in 1998. It compensated for this by sharply increasing its targeted cash transfer program for vulnerable groups and raising by two-thirds the share of total social expenditures in GDP.

16. **Structural Challenges.** Yemen faces three major structural challenges: to diversify and increase foreign exchange earnings to maintain a sustainable external balance; to raise the type of new investments that can bring down unemployment in a labor force growing at 4-5% p.a.; and to shift the location and source of economic and population growth geographically and sectorally to reflect Yemen's critical shortage of water. It will need different kinds of investment to meet each challenge.

- **External balance.** The economy retains its dependence on *oil exports* and *remittances* from Yemenis working abroad (which reached 97% of oil earnings in 1998). Neither has great potential for growth. Unless major new oil reserves are discovered, the quantity of oil exported will begin to fall by about 2002. Remittances are still less than 75% of their peak of \$1.6 billion

in the mid-1980s, but Gulf economies have reduced their construction programs, replaced Yemenis with other nationalities, and shifted their labor demand to more skilled professions than Yemen has provided in the past. Nontraditional export growth, even from a very small base, has been very modest. *Agricultural export* prospects are worth pursuing but their potential is at best modest because of the shortage of water. *Fisheries exports* are constrained by the absence of stock management capacity, which permits the overfishing of key species, exacerbated by illegal fishing by foreign vessels and smuggling. On the positive side, *natural gas* and services such as *tourism* hold better potential for rapid growth.

- **Employment.** Most of Yemen's relatively unskilled labor force is in rural areas, and mostly in agriculture. They are generally not concentrated where the best future prospects for growth lie, and their employment prospects will not be much affected by capital-intensive investments in gas export or petrochemicals. Yemen needs to transform its economic incentives to facilitate relatively labor-intensive investments. Ideally these will be export-oriented, but insofar as Yemen can attract enough foreign exchange-generating capital intensive investments, its immediate priority should be on any productive employment generation.
- **Location of Growth.** Most of the population is in the highlands, and most people there depend on agriculture (58% of employment nationwide is in agriculture). About 85% of the value of crop production is from irrigated farms, which take 93% of all water consumed nationwide. Four-fifths of irrigated land uses groundwater, and groundwater use in the highlands so far outstrips annual recharge that irrigated farming will in the foreseeable future have to be drastically curtailed. Efficiency of remaining irrigation will need to be greatly increased. Even if it is tripled to 90% or more, most farmers must eventually either revert to rainfed farming (and suffer a loss of income), migrate to areas that have dependable water supplies, or find employment outside of agriculture. The exhaustion of groundwater will similarly affect highland cities, including Sana'a. There is evidence that abundant supplies may be available in some coastal areas, but the cost of transporting water from there (or from potential Red Sea desalination plants) to Sana'a and most other highland cities is prohibitive. Therefore, future growth should be focused on coastal areas and actions that attract more migrants to the highland cities should be discouraged. In highland areas, where most Yemenis will continue to live for the foreseeable future, a shift of employment out of irrigated agriculture is vital to the preservation of a sustainable water supply, which is in turn essential to maintain reasonable standards of living.

17. **Endowments.** Yemen has several endowments that offer hope to meet these challenges. Among them are five great resources:

- **Location.** Yemen's position along the major sea route between Europe and Asia, which made Aden the second busiest port in the world at one time, can again be put to use. Aden is well situated to become Yemen's major growth pole.
- **Oil, Gas and Minerals.** Revenues from Yemen's limited reserves can, before their exhaustion, help build a competent state, good education and health systems, and a modern physical infrastructure capable of supporting diversified commerce and industry. Gas in particular has good growth prospects and many potential linkages to the rest of the economy. Evidence of minerals including gold has stimulated further exploration by private firms. Production and export of high quality marble and other construction material could be increased substantially.
- **Coastal Aquifers.** As the densely populated highlands exhaust their groundwater aquifers, many people will be forced to seek other places to make a living. Certain coastal aquifers are thought to be able to sustain a large population for centuries.

- **Trading Culture.** Since antiquity, Yemenis have been oriented to international trade. This culture affords Yemen a wealth of potential foreign trade and investment links, as well as a large population of expatriate Yemenis many of whom would help exploit those links as far as the internal business climate permits.
- **Cultural Heritage and Tourism.** Yemen offers unique cities preserving architecture from antiquity, spectacular mountain vistas of ancient terraces still being farmed, remains of ancient kingdoms such as Sheba, and other cultural sites and attractions which, with proper preparations and preservation, could generate substantial tourism-related income.

18. **Recent Progress.** Recently, the Government has made good progress in laying the foundations to exploit these endowments:

- **In trade policy,** it has created a more open and transparent regime. Traders face a simpler and less protective tariff structure which now incorporates all import fees into one rate, streamlined customs procedures and documentation requirements, and far fewer import bans, export restrictions, and trade licensing requirements.
- **In the investment regime,** it has adopted a uniform treatment of both domestic and foreign investors. It has begun to change the focus of the General Investment Authority from regulation to promotion, and to strengthen the Export Supreme Council's secretariat.
- **In privatization,** it has established a Technical Privatization Office and in 1998 transferred about 30 small public enterprises in industry, tourism and trade to the private sector through sale or lease. It is now preparing plans, with Bank assistance, for privatizing several large public enterprises.
- **In social development,** to spread growth-promoting investments through the country, it has launched with Bank support a popular and rapidly growing Social Fund for Development, which helps communities provide equipment for community infrastructure such as schools and health clinics, improves community services such as literacy training for women, and provides microenterprise finance. In parallel, it has launched with Bank support a similarly popular Public Works Program, which finances community infrastructure. Both programs indirectly enhance the political acceptability of stabilization and adjustment measures.

19. In the **financial sector**, the Government in 1997 adopted a program of reforms supported by an IDA adjustment credit, including improved bank regulation, new banking legislation prohibiting insider lending and credit risk concentration, and modern accounting standards. Plans are underway to privatize or otherwise improve the efficiency of three major state-owned banks. However, much remains to be done. Some of the reforms have met resistance from the commercial banks, most of which will have to make major changes in their loan portfolios to comply with the new legislation. The Central Bank plans to agree with these banks on action plans to restore prudent ratios, but its capacity to enforce these plans is not assured. The legal and judicial environment makes loan collection difficult, and banks tend to reduce their risk by concentrating lending among a few borrowers, usually board members and their relatives and friends. Nonperforming loan ratios are very high, and many banks are technically insolvent. Rural areas are served poorly, and small businesses have little access to formal credit. Savings are invested in government notes rather than new loans. Savings mobilization and intermediation under these conditions are poor, despite the introduction of market-driven interest rates.

C. Medium Term Prospects and Risks

20. **Base Case Economic Scenario.** Table 3 summarizes the key indicators in this scenario, which projects medium-term real GDP growth of 4.7% p.a. (5.2% p.a. for non-oil growth) during 1999-2002. This assumes a rebound in 1999 in reaction to stabilization and structural reforms. Inflation would average below 7% p.a. Oil export revenues are expected to recover only very slowly as output levels off and export prices increase by only 4% p.a. Despite growth by over one-third in nonoil exports, the overall share of oil in total exports is expected to fall only slightly, to 88%. The unemployment rate is expected to rise above 30%, given Yemen's rapid labor force growth, placing serious pressure on the social and political fabric. There are, however, several areas that offer hope for sustained growth: expansionary but disciplined macroeconomic management, a very light debt service burden, a flexible exchange rate, the opening of the first phase of a modern container port in Aden, new exploration commencing for oil, gas, and minerals, an agreement in principle to produce and export liquified natural gas to India, and, most important in the longer run, government commitment to a reform program that, if fully implemented, should attract considerable private investor interest to exploit the potential sources of growth outlined in para. 17.

Table 3: Base Case Economic Scenario				
	1999	2000	2001	2002
	(annual change in percent)			
Real GDP at Market Prices	5.3	4.0	4.5	5.0
Real non-oil GDP	4.2	5.0	5.5	6.0
Consumer price index	9.2	7.0	6.0	5.0
	(in percent of GDP)			
Government revenue	31.1	32.4	32.4	31.8
<i>Of which, oil revenue</i>	<i>16.6</i>	<i>17.8</i>	<i>17.3</i>	<i>17.0</i>
Government expenditure	35.2	35.3	34.4	33.8
<i>Recurrent</i>	<i>28.0</i>	<i>27.4</i>	<i>26.5</i>	<i>25.9</i>
<i>Investment</i>	<i>7.2</i>	<i>7.9</i>	<i>7.9</i>	<i>7.9</i>
Overall fiscal balance	-4.1	-2.9	-2.3	-1.9
Official external debt	72.8	64.1	62.5	60.4
	(in millions of US dollars)			
Goods exports, f.o.b.	1,703	1,840	1,858	1,916
<i>Of which, crude oil</i>	<i>1,389</i>	<i>1,498</i>	<i>1,490</i>	<i>1,521</i>
Imports, c.i.f.	2,261	2,385	2,462	2,558
Current account balance	-147	-141	-143	-147
Overall balance of payments	-101	-136	60	70
Debt service ratio	7.5	5.1	5.1	5.1

21. **External Environment.** With limited internal markets and few natural resources, Yemen depends heavily on its external environment. The most important factors in this environment:

- **The price of oil.** A 10% rise in the price of oil and oil products increases total exports by 9%, equal to about 2.9% of GDP. Despite recent increases, the crude oil price is not expected to rise by more than one eighth over an assumed 1999 average of US\$12.00, however, through 2002.
- **External financial support.** Yemen's expatriate workers are expected to be able to increase their remittances by about an eighth, to US\$1.3 billion, in the medium term. This source of external support far outstrips official assistance. The Bank is the largest source of development assistance, followed by the Netherlands. Germany, the European Union and Japan also maintain substantial and diversified development aid programs. The United States provides substantial grant food aid irregularly, and some other donors such as France and Italy provide food aid and/or trade credits. The United Kingdom has a small but growing and well-placed program of mainly technical assistance and scholarships. The Arab Fund has been a very important source of support especially in infrastructure. The United Nations agencies – UNDP, UNICEF, FAO, WFP, UNFPA, and UNHCR – collectively contribute a substantial amount financially, though their technical contributions are arguably greater. The most important form of bilateral financial support quantitatively has been debt rescheduling, but there is little more that can be rescheduled now (only an IDA-supported reduction of about US\$400 million in commercial debt). There is little prospect for major increases in donor assistance.

- *Relations with neighboring countries.* Saudi Arabia's trade, guest worker, and other policies are very important to Yemen's economic and political situation. A border dispute contributes to strained relations, but the Government of Yemen places high priority on improving its relationship with the Saudis.
22. **Risks.** Four main risks affect the base case projections.
- *Domestic order and security.* Growth-oriented investment and tourism depend on domestic peace and order, and a continuation of oil pipeline bombings (there were 19 in the last half of 1998), kidnappings of foreigners (the first deaths related to which occurred in December 1998), or violent demonstrations (against the Government or foreign embassies) would signal investors and tourists to stay away. The Government is acutely aware of this connection, and its plans for local elections, administrative decentralization, and reallocation of public investments to improve conditions in areas of unrest all reflect its concern.
 - *Adverse terms of trade.* Further weakening of world oil prices or major increases in world grain prices could force cutbacks in budget outlays and imports. The Government's response is to pursue sound macroeconomic policies and implementation of structural reforms to reduce dependence on oil exports.
 - *Governance/Corruption.* Private investment is unlikely to respond well to economic reforms if they are not accompanied by improved governance through a simpler legal and regulatory environment, dependable administration of justice and enforceable contracts, less discretionary decisionmaking, and more transparency and rule of law.
 - *Implementation weakness.* The Government's lack of capacity to implement the reforms on the ground may prevent them from producing their full intended benefits. The strategy outlined below squarely addresses this risk.

III. BANK GROUP COUNTRY ASSISTANCE STRATEGY

A. Lessons from the Past

23. **The Bank's Past Assistance Strategy.** The last CAS (January 1996) established three broad objectives: (i) stabilization, structural adjustment, and social protection, (ii) sustainable human and natural resource development, and (iii) improved portfolio implementation. The first objective was to be achieved through the Government's program of reforms outlined above. These were supported by an Economic Recovery Credit (FY96, US\$80 million) and a Financial Sector Adjustment Credit (FY98, US\$80 million). In addition, civil works and social fund projects addressed the social protection objective. Investment projects in education, vocational training, agriculture, water supply, transportation, and flood rehabilitation supported the second objective. The third objective was addressed by the establishment and continued strengthening of the Resident Mission, with prime responsibility for implementation, and regular Country Portfolio Performance Reviews since FY95. Portfolio performance has, as a result, improved dramatically. The share of unsatisfactory projects fell from 50% in FY95 to 13% in FY99, while the share of projects at risk fell from 52% to 21% and the disbursement ratio rose from 10% to 25%. Meanwhile, preparations were underway for public administration reform more broadly. With the advent of the economic crisis in late 1997, the Bank began to work with the Government on a new series of broad adjustment credits both to help meet Yemen's exceptional financing needs and to support reforms in budgeting and civil service reform.-

24. **IFC Experience.** IFC was inactive in Yemen from the 1980s until FY98. Uncertain enforceability of contracts and unreliable jurisprudence were major disincentives. An investment dispute linked to these problems led to the hiatus in investment, but IFC began again with new investments in FY98 and FY99, and is now actively exploring new investment sectors.

25. **Outcomes and Lessons from OED.** The Operations Evaluation Department (OED) has reviewed the Bank's assistance to Yemen since 1980 and found it to be marginally unsatisfactory up to 1995, after which its effectiveness improved considerably. The Development Effectiveness Indicator (DEI), a composite of ratings on project outcomes, institutional development, and sustainability, was 6.24 on a 10-point scale for credits closing between 1990 and 1998, slightly below the DEI for MENA and the Bank, but above that of IDA countries and substantially above that of countries near Yemen's income level.

26. **Impact to 1995: Marginal.** Despite reasonable individual project outcomes, however, OED concluded that the Bank had very little impact overall, and its institutional development achievements were not sustained.

- In *macroeconomic policy and performance*, the Bank had virtually no impact. Until 1990, with ample support from other sources, the Government had no interest in structural adjustment, and between 1990 and 1995 it was preoccupied with internal politics.
- At the *sectoral level*, the Bank's impact has been mixed. In agriculture, it supported the expansion of irrigation, but overall irrigation efficiency remained low at 30-40%, and crop yields stayed low. In health, bilateral donors made a greater contribution to Yemen's impressive gains; the Bank's assistance has up to now been modest and mostly unsatisfactory. In education, the Bank's impact was great, but might have been greater if it had not pursued so many objectives (including adult literacy, vocational education, and rural extension worker training). In water, which is of paramount importance for Yemen's very survival, the Bank and donors helped over 25 years to raise the share of the population with safe water from 5% to 40%. However, only in the past five years has the Bank focused on the critical need to achieve sustainability of water resources. In road transport, by pleasant contrast, 100% of evaluated projects were seen as likely to have sustainable benefits, and institutional development was reasonably good (including creation of an autonomous maintenance fund and commercialization of the government-owned construction agency, which now competes with private contractors). Sectoral management is good, and the visible benefits of good roads reinforce the Government's priority to extend and maintain the road network as a key element of nation-building.

27. **Since 1996: Better, but Room for Improvement.** OED found that since 1996, the Bank's much-expanded assistance was better targeted and more effective, though considerable room remained for improvement. The main reason for this was a change in the Government's commitment to dealing with basic development constraints, beginning in 1995. Although the Bank's and Government's performance have both improved enough to merit satisfactory ratings, OED cautions that more efforts are needed to address the following weaknesses:

- *Strategic Focus.* Bank-assisted projects have been diffused across a wide range of problems of varying priority, and have not been sufficiently focused on basic development constraints.
- *Sustainability.* Impact must be sustainable, but up to now sustainability has been elusive: only a quarter of agriculture projects have been rated sustainable, for example, and only half of education projects. Inadequate operation and maintenance budgets for project investments, diversion of investments to other uses, ineffective complementary expenditures (e.g., salaries of teachers who do not teach), and poor management and accounting of expenditures all threaten sustainability. The Bank's reliance on "enclave" project implementation units, separate from line

ministries which ultimately must operate project investments, is another limiting factor. OED attributed poor sustainability primarily to poor quality public administration and corruption.

- **Gender.** The female half of Yemen's adult population lags farther behind the male half now than in 1970 in literacy, which is a key correlate of maternal and child health, nutrition, fertility, and economic productivity. The Bank recognized the need to focus on gender issues in education, health, and agriculture, but it has not yet addressed all binding constraints. In trying to expand girls' education, for example, it trained more female teachers but did not address other constraints such as the need for separate classrooms or bathrooms. OED called for a more holistic approach.

28. **OED Recommendations.** Taking the lessons of past performance into account, OED concluded that the Bank can improve its future impact by focusing on two main principles:

- It needs clear priorities for future assistance, and discipline in keeping lending and sector work consistent with those priorities. It proposed four areas of emphasis: (i) removing constraints to growth; (ii) improving water management; (iii) reducing the gender gap in its various forms; (iv) improving the quality of governance, which is essential to success in the other three areas.
- It needs to ensure investment sustainability by (i) strengthening institutional capacities, (ii) phasing out autonomous project implementation units, (iii) simplifying project design, (iv) building broad consensus for reforms, and (v) taking more time to prepare projects for successful implementation.

B. Guiding Principles for a New Strategy

29. In 1998 the Government and the Bank began to work jointly on formulation of the new CAS. The process, described in Box 2, placed Bank assistance squarely in the context of national development strategy. Because the development needs expressed by the parties to the consultations covered almost every conceivable area, however, setting priorities among these needs required prior understandings on principles and criteria. Based on the lessons of the past, including the OED findings, regarding objectives, sectors of concentration, and design of interventions, the following four principles were applied.

- **Selectivity.** Yemen's needs are so great and so diverse that almost every sector looks like a deserving candidate for Bank assistance. To have the greatest impact, however, the strategy should selectively address sectors and issues (i) which are the most binding constraints on development; (ii) where the Bank has the capacity to make improvements; (iii) where the Government places priority and has control over outcomes; and (iv) which other donors, private investors, and the Government are not able to

Box 2: The Consultative Process

Faced with a sharp fall in revenues as the oil price fell, the Government recognized the need to rethink its priorities and practices. The formulation of the CAS dovetailed with this need, and became part of the process. The Bank began CAS discussions on national development priorities in March 1998. A counterpart team from the Ministry of Planning and Development (MOPD) began working with the Bank team in May, and organized a round of consultations with a range of government agencies, donor representatives, NGOs, business and professional interests, academicians, women's and youth organizations, the press, and political opposition. In July these consultations were deepened in Sana'a and extended to the governorates with a similar mix of contacts. The parties consulted were asked to consider long-term priorities, short- and medium-term actions towards achieving them, and within those priorities and steps, the role of the Bank. From their responses, supplemented by a simultaneous social assessment and analysis from Bank ESW, the CAS team distilled a matrix of problem diagnoses, actions, progress indicators, and instruments, arranged by strategic objectives. This matrix was the focal point of a further round of consultations with stakeholders in November, this time further extended to include tribal leaders, members of Parliament, farmer groups, university students and professors, the labor federation, more NGOs and opposition parties, and a wider group of line ministry officials. Based on the outcome of these consultations, the Bank produced a tightly focused draft CAS, which was then reviewed and commented on by MOPD, further revised, and made the subject of high-level discussions with the Government, Parliament and donors in Sana'a in April 1999. These discussions led to a modest broadening of proposed CAS activities in response to virtually universal requests for assistance in (i) stronger family planning efforts, (ii) reduction of qat consumption, (iii) rural roads expansion, and (iv) raising farmers' productivity. Vocal support from Parliament for strong action in these areas, as well as for potentially problematic programs for water management, girls' education, anticorruption measures, and related civil service reforms, provided a good assurance of local "ownership" of the essential elements of the proposed CAS.

handle without Bank involvement.

- **Sustainability.** The strategy should support interventions with economic, social, political and institutional sustainability after Bank involvement ends. They should improve Yemen's overall fiscal, economic, social and environmental sustainability.
- **Partnerships.** The strategy should maximize the potential synergies of joint or coordinated efforts with other development agents, including private enterprise, NGOs, and official development assistance.
- **Poverty Impact.** The strategy should bring early benefits to large parts of the society, particularly the poor. These benefits should be visibly associated with longer-gestation interventions, especially economic and administrative reforms.

C. Objectives

30. Applying these principles to the analysis of Yemen's persistent poverty and the lessons of past Bank performance, the strategy would focus assistance on four interdependent objectives:

- to create a modern public administration that provides public services honestly and efficiently while encouraging private enterprise;
- to attract diversified productive private investments that help the economy grow out of poverty and dependence on oil;
- to prevent an imminent absolute shortage of fresh water from creating unbearable financial costs and social disorder that short-circuit progress on the other objectives; and
- to create an early stream of social benefits, in education, health, and other services most valued by Yemenis, which directly address poverty and fortify the benefits of the other objectives.

31. There are other extremely urgent needs, but the *capacity* to meet these needs in a sustainable way follows from success in these four basic development objectives. The strategy would continue to place strong emphasis on improving the performance of the project portfolio as an essential prerequisite to the achievement of the development objectives.

D. Areas of Focus

Public Administration Modernization

32. Development of an efficient, effective, honest, service-oriented public administration is at the heart of the strategy. Past Bank efforts to build capacity failed to address systemic weaknesses in civil service incentives, structure and management, in the budgeting mechanism, and in revenue generation. The proposed strategy makes these weaknesses its major immediate target, since the sustainability of Bank work on all the other objectives depends on good public administration. It integrates central efforts at reform with sector-led efforts. The approach has three main elements.

- First, it would place all efforts under the umbrella of a planned series of up to three (in the High Case) comprehensive *Public Sector Management Adjustment Credits (PSMACs)*. These front-loaded single-tranche operations would support reforms in the civil service, budget formulation and execution (including prioritization and proper funding of new investments, and balancing of new investment with operation and maintenance of existing public infrastructure and programs,

using a medium-term expenditure framework), financial controls, and tax and customs administration and cost recovery. The World Bank Institute would provide training in fiscal and monetary management for officials closely involved in implementing the PSMACs. To ease the remaining debt burden and create more fiscal space for expenditure reforms, the IDA Debt Reduction Facility will also help to extinguish Yemen's remaining commercial debt. A project for *Civil Service Modernization* would provide support for implementation of PSMAC's civil service reforms, streamlining procedures, restructuring selected agencies, tightening management functions, and beginning a longer-term retrenchment of excess staff. Projects in education, health, agriculture and water would support similar reforms in those sectors. Sector work over the next two years on public expenditure centrally and in the key sectors of education, health and agriculture would maintain consistency between central and sectoral strategies and expenditures. Although the ultimate objective will take many years to achieve, by 2002 there should be a leaner civil service, with pilot agencies operating in more service-oriented ways, and greater efficiency of public investments (better selections, lower completion costs, better funding of operations).

- Second, the strategy would provide technical assistance and investment support for strengthening local government, a part of the public sector which, despite its potential to provide local services more efficiently and more responsively to local needs, has remained undeveloped. A comprehensive program for local government can be designed only after the Government decides what form of decentralization law to enact. The strategy therefore takes three thrusts relatively independent of this: a project to develop Aden as Yemen's primary growth pole, elaboration of an urban management strategy that would feature pilot programs in two or three major cities, and programs to strengthen decentralized management in education, health, and municipal water.
- Third, the strategy would address the problem of governance from several directions. The main thrust would come from the PSMAC and Civil Service Modernization operations, which would reduce opportunities for corruption in the civil service (more transparent processes, fewer steps and approvals), strengthen safeguards against it (more public information on budgets and contracts, better auditing and accounting), and, in the longer run, eliminate the salary-based need for rent-seeking behavior. A more direct approach, strongly sought by potential investors including the IFC, is a series of two *Legal and Judicial Development* projects to bring Yemeni business law closer to world standards and to introduce predictability in the application of justice through better training, standards, compensation and ancillary support for the judiciary. Finally, the strategy envisages creation of an *Independent Commission Against Corruption* as a focal point for combating corruption, through familiarization workshops by the World Bank Institute, then an IDF grant, and later support by donors. The Commission would, in support of law enforcement agencies, provide public education to reduce tolerance for corruption, investigate complaints of corruption, and do research to identify changes in processes and policies that create incentives for corruption. Based on successful experiences elsewhere, the Commission's work would need to be seen as a long-term effort.

Private Investment for Jobs and Sustainable Economic Base

33. Economic growth that is broad-based and diversified for sustainability is the most powerful means of reducing poverty, raising the quality of life, and providing the income to achieve the other objectives. The strategy would support it with targeted interventions to promote productive private investment and employment, addressing three major needs: (i) to improve the private investment environment, (ii) to exploit the natural advantages of Aden as a magnet for investment, and (iii) to address sectoral constraints to growth. The strategies to address these needs are as follows:

- The most serious constraints on potential investors are rooted in the excessive presence of government in some areas (e.g., inefficient public enterprise monopolies, overregulation), and its

weakness in others (e.g., justice, land tenure, banking regulation, information and promotion for potential investors). The Bank Group is already helping the Government with both kinds of problem, through projects in transport, water, and power, the Financial Sector Adjustment Credit, a privatization support project, and the work of FIAS on the investment environment. The next Country Economic Memorandum would address both problem areas as well. The planned Privatization Support Project would help to privatize a number of public enterprises, pave the way for smooth privatization of others later, and attract private investment and management in the process. Two *Legal and Judicial Development* projects and sector work on land titling would address investor concerns in those areas. The strategy envisages a collaborative effort to improve the business environment involving IFC, FIAS, IDA, donors and the Government. Based on existing analysis and new findings from planned FIAS work on the investment environment, these parties would develop jointly a prioritized action plan to address the most immediate constraints to private investments. The plan would identify sets of actions to be implemented over the short- and medium-term. IDA and IFC would support implementation of the agreed actions through technical assistance and IFC investments in specific projects as test cases.

- Development of Aden as the leading magnet for investment will require much more than the private investments already underway to modernize the Port of Aden. The strategy calls for the creation of an Aden Free Port with the degree of autonomous management enjoyed by Jebel Ali in the UAE, for example. If successful, this would impose major infrastructural demands on the City and Governorate of Aden, and call for special administrative arrangements for the area. The Bank would assist in planning and lending for infrastructural and administrative needs. IFC would explore the opportunities to mobilize private investments in the new Free Port.
- Sectoral constraints to productive private investment must be handled mainly through specific sectoral support, even if reforms are mandated centrally. The strategy would address the most important of these with lending support (e.g., for water, education and health, all long-term constraints) or strategy/policy work as noted above for the financial sector, tourism, power, rural access, and urban management (the latter two followed by lending operations in the High Case lending scenario described in para. 47), including potential IFC investments in the financial and energy sectors.

Water Management for Environmental Sustainability and Social Peace

34. The strategy recognizes that the problem of a mounting scarcity of fresh water cannot be solved within a single sector. It requires coordinated basin approaches involving regulation of groundwater extraction, water-efficient crops and irrigation technology, harnessing of surface flows, conservation and loss reduction in both urban and rural uses, proper sanitation and health education, recycling where possible, adoption of efficient technologies to purify water, rural-urban and interregional transfers where feasible, and shifting of new demand for water to

Box 3: Gender Strategy

The gender gap in education, employment, income and rights is relatively large in Yemen, and reducing this gap would add greatly to productivity and quality of life. However, Yemen's social and religious traditions would doom a frontal assault on the gender gap. Following the findings of the 1997 Gender Strategy Note for Yemen, the strategy incorporates priorities within sectors, and project designs, which act in a nonthreatening way to improve women's lives. The most powerful means to achieve this improvement are girls' education, health upgrading, reproductive choice, and accessible water supply. With 84% of female workers employed in agriculture and livestock, direct economic benefits to women would also flow from livestock and water management improvements, special attention to women's products in agricultural research and extension, and microenterprise support. Women's access to markets and to education, health and other services would be disproportionately improved by extending the rural road network to more of Yemen's many isolated villages and hamlets. Women's empowerment in community decisionmaking would be improved by the community participatory approach to projects in rural and municipal development. And any success in reducing household expenditures on qat could be expected to benefit girls in terms of incremental spending on their education and health. The CAS would address all these gender priorities. In view of the Bank's limited resources, however, it would rely on donors, civil society organizations, and Government to address other priorities, including strengthening the cash transfer system of the Social Welfare Fund, the application of legally guaranteed rights, labor policy promotive of female employment, creation of youth organizations for girls, and a strategy to reduce domestic violence against women.

regions with long-term supplies. Present technology does not permit sustainable water management in the populous highlands unless groundwater use by agriculture is greatly reduced, regardless of how efficient urban use becomes. The strategy recognizes that rapid transformation of the economy out of irrigated agriculture is impossible, however, and takes the following approach, based on a long process of water sector consensus-building facilitated by the Resident Mission over the last two years.

- Farmers who divert periodic floodwaters for irrigation (“spate irrigation”) already have technically sustainable systems. The Bank would help them to rehabilitate major flood-damaged systems and in the process equip them with the organizations and skills to take over operation and maintenance responsibilities for their systems from the Government. These systems hold modest potential for sustainable agricultural exports also, and IFC is considering possible investment in this area.
- Farmers who depend on groundwater would be encouraged and assisted to adopt water-saving pipe, drip and related irrigation technology. Ongoing project assistance is already helping pilot-test these technologies with good results. An *Agricultural Technology Project* would help to extend this to a national scale. To discourage excessive use of groundwater, lending would be conditional upon continual reduction/elimination of diesel fuel and water pump subsidies.
- To improve incomes of farmers who will have to continue to depend on rainfed agriculture, the Bank is already helping develop effective systems of research and extension for rainfed crops. The *Agricultural Technology Project* and parallel donor support would extend these systems nationwide.
- Yemen’s rapidly growing cities and towns will require major investments in water supply and sanitation, and loss reduction will become ever more important for them. Working with other donors, and Bank would aim to decentralize and strengthen municipal water supply and sanitation through a series of projects covering smaller secondary towns, regional cities, and Sana’a Basin. The Sana’a project would be by far the most complex, integrating urban and rural management of the capital city’s groundwater, which is expected at current use rates to be almost exhausted by 2008. It would extend the life of groundwater reserves by urban loss reduction, rural-urban water markets, groundwater management, and irrigation improvements.
- In the High Case lending scenario (para. 47) we would prepare a strategy for development of coastal aquifers, exploring their potential for irrigated agriculture, nonagricultural investments, and water transfer to coastal cities.

Targeted Social Improvements for Poverty Alleviation

35. Activities to achieve the fourth objective emphasize education, health, and community-level improvements that raise quality of life in an immediate sense, but that also strengthen the benefits of work devoted to the three other objectives. Past Bank efforts in these areas have not, as the OED noted, been very effective, and have not been sustainable. They have, however, provided hard lessons from which the proposed strategy benefits. Three elements make up this part of the strategy:

- The most important of these is a strong emphasis on efficient education of girls, as the best way to improve the status of women, reduce fertility, and improve productivity in the next generation. The strategy would orient the design of two *Basic Education Expansion* projects around the need to enroll and retain more girls at the basic level (grades 1-9). This involves several requirements that are gender-neutral, including improving investment efficiency through the PSMAC reforms, improving operations management through decentralization of supervision and other responsibilities, better teacher training, and supply of textbooks. But it also requires building

girls' secondary schools to give parents added incentive to keep their daughters in basic education and to provide more qualified female teachers, changing the physical design of schools, and building many more community primary schools. The ongoing Education Sector Investment Project and a well-developed consensus on sector strategy with the Ministry of Education provide a good basis for proposed lending to address the above needs. Sector work to review the implementation of the education strategy and flag problems early would facilitate adoption of sector reforms. Finally, an assessment of higher education requested by the Government would assist with rationalization, including qualitative improvements and reduction of public subsidies.

- In health, the challenge is to address a number of serious problems – information on and access to contraceptives to help reduce the unsustainably high rate of population growth, safe motherhood, child nutrition and immunization, community water and sanitation, and operation of good clinical care facilities (basic and referral) – all within an extremely small budget. A health sector strategy prepared by the Ministry of Health proposes, like the education sector strategy, to decentralize the management of much service provision (with much more community involvement in support of their own health services), train and equip adequately the decentralized units (including secondary hospitals), and expand preventive and promotive services. We would support this strategy with an emphasis on maternal and child health, addressing both overall sector management reforms and direct health service delivery needs. We would also monitor, as with the education sector strategy, the implementation of the health sector strategy.
- In community level improvements, the strategy would aim primarily at poor areas, to develop greater capacity for communities to assist themselves. A major vehicle for this is the *Second Public Works Project* to help communities to select and build infrastructure of the highest priority to them, be it a rural road, water supply, a health clinic, a school, or other structure. A second vehicle, lending for irrigation improvements, would also raise rural incomes. Third, the impact of irrigation would be magnified, and poorer rainfed farmers specifically assisted, as the findings of past Bank investments in agricultural technology are extended and disseminated further by the proposed *Agricultural Technology Project*. Fourth, the efficiency of public investments for agriculture would be substantially improved by the budgeting reforms under the PSMACs, and monitored, as with the education and health strategies, by agriculture sector strategy reviews. A fifth vehicle would be strategy work to encourage donor support in two areas: the requirements for better rural access, and the potential for, and means to achieve, a more active cooperatives sector. In the High Case lending scenario, two additional thrusts would be added. One is a second credit in support of the very successful Social Fund for Development, which has financed microenterprise development, equipment for community schools and clinics, women's literacy training, and many other community investments, more particularly benefiting women than any of the above vehicles. The other is a project to improve access to remote rural areas, both through small roads and promotion of transport services using the roads to connect isolated areas with markets, schools, clinics and other services.
- The complex problem of qat has recently been raised as a national development issue by the President, and is being discussed openly in Parliament. At the Government's request, the strategy would contribute towards a national consensus on qat policy by supporting a national conference in collaboration with donors. UNDP is likely to take the lead thereafter, but we would be prepared to support national policy through such project-level measures as inclusion of messages on qat in school curriculum, an information program on the health risks of qat consumption, and promotion of promising crop substitutes.

IV. IMPLEMENTATION ISSUES

A. Absorbing Lessons of Experience

36. A strategy is only as good as the capacity to implement it. This lesson has long been understood in Yemen, and the recent CAR underscored it with specific recommendations. The CAS would address implementation problems in several ways:

- Its *emphases on civil service modernization and public sector management* would go to the heart of the problem. Some measureable results from this approach are expected within a year, but most having to do with the civil service will be felt incrementally over several years.
- It would emphasize *simple project designs* as much as possible within the requirements of strategic objectives.
- In the immediate future, the strategy would continue to deal with *portfolio management* problems (see below) that are essentially symptoms of civil service and public management weaknesses.
- It would devote additional resources to helping the Government in *building domestic consensus* on vital issues (e.g., water management, civil service reforms), including active dissemination of information about the proposals, and opportunities for public debate.
- It would assist with *vulnerable group protection* from effects of subsidy reductions and reforms in public sector employment. The Bank's support for community-level organizations and infrastructure, and for basic reforms in health service delivery and basic education, address part of this need. Administration and funding of cash transfers would remain the Government's responsibility.

B. Portfolio Management

37. **Recent Improvement.** Good management of the assistance portfolio is essential for the attainment of the CAS development objectives. Implementation of the Yemen portfolio has improved greatly since 1995. In 1995, half of the portfolio was in problem status; counterpart funds were scarce, contractors were forced by inflation to abandon project works, and the merger of the two public administrations contributed to a slowdown in decisionmaking. The Resident Mission, which opened in 1995 and has since been continuously strengthened, has taken the lead in managing the portfolio. Supported by renewed government interest in improved implementation, a series of four Country Portfolio Performance Reviews has been conducted since FY95. These produced decisions to cancel substantial credit amounts, improve provision of counterpart funds, improve auditing, expedite credit ratification, act on procurement issues, and tighten monitoring. By FY98, only 8% of the portfolio was in problem status, the disbursement lag had been reduced from 45% to 10% and the share of projects with unsatisfactory development impact ratings had fallen to 4%.

38. **PMU Dilemma and CAS Approach.** Those achievements are difficult to maintain without constant attention, and the CPPR in FY99 addressed problems of backsliding in procurement, taxation, payment processing, etc. One of the persistent problems is the status and performance of Project Management Units (PMUs). Their relative autonomy and high compensation have led to resentment by poorly-paid civil servants, and the projects they implement have sometimes been allowed to deteriorate after completion, for lack of maintenance by line ministries that felt no ownership of them from the start. The dilemma for portfolio implementation is that few government agencies have the capacity or incentive to manage Bank-supported projects well.

39. The strategy would deal with this dilemma in the short run by ensuring that PMU directors report to appropriate ministers or steering committee chairmen, and that staff hired from outside the civil service be limited to four or five professionals (remaining staff coming from the line ministry at regular salaries), and by reducing the high salary differentials of PMU staff. In the longer run, PMUs with externally-recruited staff and special compensation would be phased out as the shrinkage of the civil service makes substantial increases possible in civil service salaries and as performance-based incentives are phased in.

40. **Role of Resident Mission.** The Resident Mission's role will remain central in portfolio management. It now has lead responsibility for managing the portfolio and in carrying our dialogue on implementation issues.

C. Partnership

41. Focusing Bank lending assistance on a limited set of priorities makes close collaboration with development partners essential. In the strategy's areas of emphasis, it is all the more important to move forward, first, in full partnership with the Government, reaching consensus on the way forward through active, frank discussion. Second, because the solutions in many of these areas of emphasis involve large investment programs, this discussion should include all substantial donors in the relevant sectors. It should produce sectoral strategies which all sector donors support. Consultations with donors during CAS preparation revealed that most donors intend to focus assistance on education, health and water, leaving most other sectors either lightly supported or entirely dependent on the national budget. This adds impetus to the expenditure rationalization supported by the PSMAC series. In important sectors where the strategy envisages no Bank lending, however, the Bank would continue to provide technical assistance and/or encourage donors to support sectoral reforms and well-selected government investments (e.g., in cultural heritage/tourism, power; fisheries). In some sectors, Bank involvement may serve to attract new donors (e.g., rural access, which has no specific donor support now). IFC investments would be catalysts of additional private investment in such sectors as export-oriented agriculture and finance. In special circumstances (where Bank lending is essential to bring in other donors, or where a vital need can be met only through Bank lending), provided that CAS objectives can be addressed equally well through alternative projects, the strategy foresees the possibility of substituting or adding projects other than those outlined above and in Annex B3. Projects likely to meet these criteria are in the areas of cultural heritage and tourism, power sector restructuring and private participation, and financial sector reform. In each of these potential project areas, the strategy envisages sector work in any case.

42. The strategy's emphasis on building the capacity of public administration applies to partnership as well. The Bank would provide initial technical support for the Ministry of Planning to play a leading role in coordination of donor support. The Resident Mission would in parallel continue its active role in partnership-building with donor agencies, government representatives and other relevant organizations, through monthly operational discussions and day-to-day liaison. The major points of contact for the Bank, donors and government agencies would be on a sectoral basis, to make specific plans for coordinated financial and technical support, to harmonize strategy and policy at the sectoral level, and to address sector-specific implementation problems. The Bank would encourage the Ministry of Planning to take part in such meetings, and to take the lead in general coordination meetings on such cross-cutting issues as taxation, environment, gender, etc.

D. Participation

43. Building ownership of the strategy and its components is essential to smooth implementation and, more importantly, to sustainability of benefits. At the government and donor level, this requires the partnership approach outlined above. At the community or stakeholder level, it requires inclusion of those affected by a proposed project or policy in the design phase, including women's groups

whose particular interests have often been given too little attention. As described in Box 2, the CAS was prepared through a participatory process involving four rounds of discussion with Yemenis from a wide range of backgrounds and positions. Recent sector strategy documents in water, agriculture, education and health, for example, were prepared similarly and therefore embody a great deal of ownership by Yemenis. This participatory approach also calls for delegation of an appropriate level of responsibility to local stakeholders in implementation. These steps to improve stakeholder participation and ownership will require more time in project preparation, consistent with the recommendations of the CAR to improve project quality at entry.

E. Performance Monitoring and Evaluation

44. **Strategy of Evaluation.** In the recent past, both Government and Bank have recognized the need for a better system of measuring impact of policies and programs, and more generally, progress towards objectives. The CAS would address this need by monitoring: (i) “bottom-line” *human welfare indicators* – measures of overall success of government efforts, including but not limited to Bank-supported efforts; (ii) *impact of specific policies and programs*, measuring the degree to which specific measures taken by the Government meet CAS objectives – to help guide the Government in adjusting these measures as necessary; and (iii) *development outcomes of Bank interventions* – to guide the Bank in improving its project designs and assistance strategy.

45. **Indicators.** The strategy would focus on only a few basic human welfare indicators, which are proxies for many others: (i) the poverty headcount ratio (share of the population below the poverty line); (ii) the poverty gap ratio (mean shortfall of the poor below the poverty line, as a percent of the poverty line); (iii) the child malnutrition ratio (share of children under 5 who are protein-energy malnourished); (iv) the infant mortality rate (number of deaths of infants under one year old, per 1,000 live births); and (v) the maternal mortality rate (number of women who die during pregnancy and childbirth, per 100,000 live births). The impact of specific policies and programs would be analyzed on a case-by-case basis by the Government, the Bank, or a designated third party. Development outcomes of Bank interventions, notably progress towards sustainability of water resources, would be monitored through specific projects. Indicators of progress on CAS objectives, and major outcome indicators of Bank interventions, are proposed in Annex B1.

46. As part of this process, it is essential to have accurate baseline data for each indicator. Reasonably dependable data exist for some, but not all, human welfare and policy/program impact indicators. Projects would fill the gaps in baseline data for their fields. Beyond the many credit-specific outcome indicators, the Bank would depend on the Ministry of Planning’s leadership for establishment of an improved monitoring system for key indicators. The objective is for the Government to operate an effective but affordable monitoring system as a tool to improve public policymaking and management. This issue will be pursued in the coming months.

F. Lending and Non-Lending Services

47. **Lending Levels and Triggers.** Annex B3 presents the lending program that emerged from the consultative process, in which recent progress and trends in reforms are extrapolated through the period FY 2000-2002. The magnitude and complexity of the public sector and economic reforms, and the risk of delays despite government commitments, call for a Base Case lending program with healthy and moderately paced reforms and lending commitments averaging about US\$160 million per year. Rapid progress in public sector management reforms would, other things being equal, justify a High Case lending program with more adjustment lending and additional investments complementing the main thrusts of the Base Case, for total commitments averaging about US\$230 million per year. Both cases are predicated on good portfolio performance. If public sector management reforms and

civil service modernization both stall or portfolio performance deteriorates, then the sustainable impact of lending would be seriously compromised, and lending would be cut to a Low Case of a few mainly social sector and water projects for an average of US\$80 million p.a. Box 4 summarizes the triggers that would determine the level of lending.

48. **IFC Services.** IFC is continuing to seek opportunities for new investment. Improvements in the investment environment under the High Case are likely to open opportunities for IFC to expand its investment portfolio from two loans worth US\$15.8 million to about four loans by the end of FY 2002. IFC technical assistance in the financial sector is being considered to help prepare for the the gradual establishment of a capital market, including establishment of non-bank financial institutions such as leasing companies. In addition, IFC's experiences as it develops projects would inform the Bank and Government on the actual impact of the economic reform program on the investment climate.

49. **Non-lending Services.** Recent economic and sector work (Annex B4), done in close collaboration with relevant government partners and in many cases donors, has contributed greatly to the refinement of the CAS. During FY 2000-2002, ESW would provide strategic insights for priority sectors, with three main purposes: (i) to monitor implementation of agreed public expenditure strategy at the macro level and for selected sectors; (ii) to set the stage for future Bank lending; and (iii) to provide analysis of important issues and sectors which the Government and donors can use in their bilateral programs of cooperation. Most of these would be of modest scope, either following up on recent major work or building on the work of other agencies. These would include (i) four follow-up reviews each in FY 2000 and 2001 to monitor public expenditure overall and sector strategy implementation in agriculture, education and health (associated with the PSMAC series and sector lending); (ii) strategy pieces related to growth and investment environment (a CEM, FIAS work on investment promotion, assistance on oil and gas exploration and management, a financial sector reform agenda, power sector restructuring, analysis of institutional needs for export promotion, a strategy for cooperatives development, and an analysis of land titling and secure land tenure requirements); (iii) a strategy for management of Sana'a Basin's dwindling water supply; (iv) a strategy for urban management to prepare for possible future investments in better-functioning cities; and (v) a set of activities designed to improve lagging aspects of governance and public management (a transparent, integrated and difficult-to-corrupt financial management and supplier payment system to cut unit procurement costs and track expenditures better; and an Independent Commission Against Corruption to educate the public, investigate complaints of corruption, and research potential systemic safeguards against corruption). Advisory work would be done on higher education rationalization, on qat (culminating in a national strategy workshop), and, in the High Case, a strategy formulated for development of promising coastal aquifers.

Box 4: Criteria for Lending Levels

Low Case

- Failure to adhere substantially to IMF ESAF/EFF program targets.
- Public sector management reform weak or discontinued.
- Portfolio deteriorates with unsatisfactory project ratings over 15%, and disbursement ratio under 15%.

Base Case

- IMF ESAF/EFF program on track.
- Satisfactory progress on public sector management reform.
 - Civil service census and ID issuance completed.
 - All ghost workers removed from payroll.
 - Civil Service Fund functional.
 - Re-engineering underway for 3 ministries by 2000.
 - Adherence to Public Expenditure Review agreed priorities.
- Portfolio implementation satisfactory, with unsatisfactory project ratings below 15 percent, disbursement ratio over 15%.

High Case

- IMF ESAF/EFF program on track.
- Accelerated progress on public administration reform
 - Reduction of civil servant numbers by 5% in first year, 3% p.a. thereafter.
 - Start of legal and judicial reforms.
 - Privatization of at least 3 major public enterprises completed or substantially completed by 2001.
 - Adequate O&M allocated for all public investments in education, health, and agriculture.
- Portfolio implementation satisfactory, with unsatisfactory ratings in project portfolio below 10%, disbursement ratio over 20%.

G. Risk Management

51. The assistance strategy outlined above entails several important risks:

- the political support needed for implementation of public sector reforms may not be sustainable;
- institutional capacity may be inadequate to implement structural and sectoral reforms;
- domestic conflict may worsen, diverting attention and funds from the development strategy; and
- donor support may flag if further progress is not made in improving governance.

52. To address the first risk, the strategy devotes considerable resources to creating visible improvements that are meaningful in the daily lives of Yemenis: the budget reforms supported by the PSMAC, for example, do this by providing funds for schools and health clinics to be completed and in service faster; the expanded support for public works, basic education, health, and water supply all should contribute to a sense of gradual betterment in quality of life. The second risk calls for sustained generous technical support for reforms implementation. A Headquarters-based economist has been added recently to the Resident Mission specifically to advise and assist in public sector reforms. The Bank has limited influence over the third risk, but can help reduce the aspects that stem from conflicts over water, over allocation of public investments, and, to some extent, over corruption. The Bank's response to the fourth risk is, as with the first risk, built into the strategy through efforts to streamline budgeting, improve service delivery by a better-paid and more professional civil service, eliminate needless regulations that create opportunities for corruption, and establish a citizen's watchdog agency to build public resistance to corruption and publicize instances of it. These responses, however, leave the program with substantial risks. The lending program, therefore, is designed with a mix of higher-risk, innovative projects and low-risk interventions, and backed up with three potential substitute projects which would serve CAS objectives well if certain currently planned projects do not materialize. Continuous monitoring of the above risks and their impact on portfolio performance would guide decisions on project selection and scheduling.

James D. Wolfensohn
President

By:

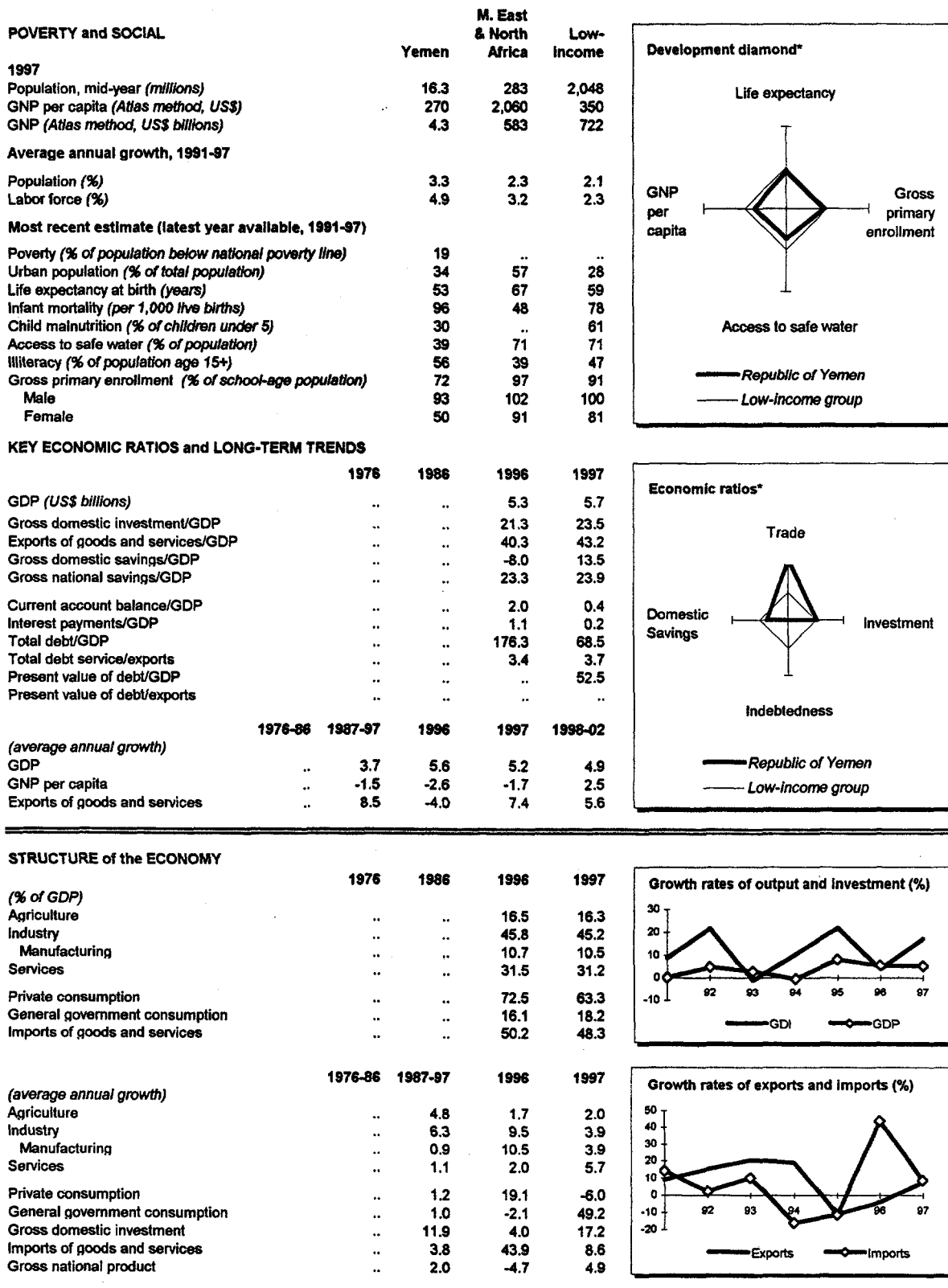
Shengman Zhang

Peter Woicke

Washington, D.C

Attachments.

Republic of Yemen at a glance



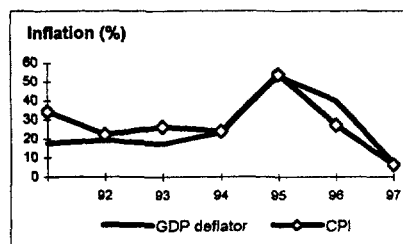
Note: 1997 data are preliminary estimates.

* The diamonds show four indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Republic of Yemen

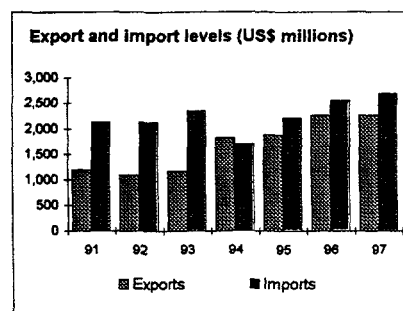
PRICES and GOVERNMENT FINANCE

	1976	1986	1996	1997
Domestic prices				
(% change)				
Consumer prices	27.3	6.3
Implicit GDP deflator	40.1	7.2
Government finance				
(% of GDP, includes current grants)				
Current revenue	38.4	37.7
Current budget balance	2.4	6.0
Overall surplus/deficit	-3.5	-2.3



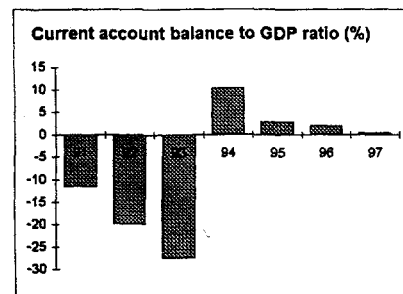
TRADE

	1976	1986	1996	1997
TRADE				
(US\$ millions)				
Total exports (fob)	2,263	2,264
Crude Oil - Govt. Share	958	1,002
Crude Oil - Companies' Share	1,018	933
Manufactures	210	199
Total imports (cif)	2,556	2,695
Food	1,029	1,030
Fuel and energy	199	186
Capital goods	96	85
Export price index (1995=100)	96	91
Import price index (1995=100)	81	79
Terms of trade (1995=100)	119	115



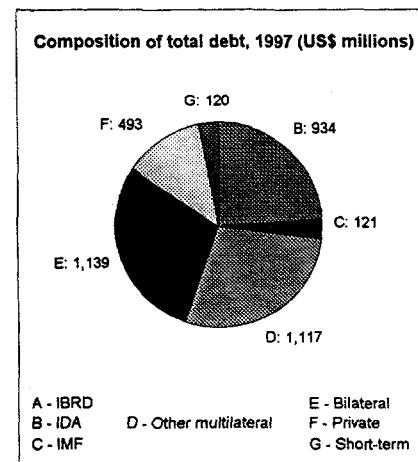
BALANCE of PAYMENTS

	1976	1986	1996	1997
BALANCE of PAYMENTS				
(US\$ millions)				
Exports of goods and services	2,493	2,530
Imports of goods and services	2,894	3,105
Resource balance	-401	-575
Net income	-682	-657
Net current transfers	1,129	1,166
Current account balance	106	22
Financing items (net)	163	280
Changes in net reserves	-269	-302
Memo:				
Reserves including gold (US\$ millions)	1,037	1,227
Conversion rate (DEC, local/US\$)	151.0	144.9



EXTERNAL DEBT and RESOURCE FLOWS

	1976	1986	1996	1997
EXTERNAL DEBT and RESOURCE FLOWS				
(US\$ millions)				
Total debt outstanding and disbursed	9,333	3,924
IBRD
IDA	893	934
Total debt service
IBRD
IDA	16	16
Composition of net resource flows				
Official grants
Official creditors
Private creditors
Foreign direct investment
Portfolio equity
World Bank program				
Commitments
Disbursements
Principal repayments
Net flows
Interest payments
Net transfers



Issue and Problem Diagnosis	Remedial Actions	Country Performance Indicators	Bank Group Self-Evaluation Indicators	Bank Group Support	Other Partner Activities
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I. Public Sector Modernization					
<p>Civil service Excessive size, inadequate incentives, and low pay foster endemic corruption, waste, and unresponsiveness to business and public. Weak training and poor management skills lead to poor service to public. Overcentralization weakens accountability to those served.</p>	<ul style="list-style-type: none"> • Introduction of strong personnel management and training/retraining programs. • Streamlining of procedures. • Re-engineering of agencies to delegate decision-making authority and enhance orientation towards clients. • Size reduction in civil service coupled with decompression of salary scale to increase pay of technical and managerial staff to private sector levels. • Service delivery surveys linked to staff incentives. • Devolution of authority and financing for many essential services from center to local areas. • Reduced public tolerance of corruption through creation of independent anti-corruption body to investigate, educate and conduct research.. 	<ul style="list-style-type: none"> • New personnel system functioning well. • Three agencies each streamlined and re-engineered, and client satisfaction measured by survey. • Service delivery standards substantially improved. • Civil service fund implemented, payroll reduced by 30,000 over 3 years, salary structure raised and decompressed. • Responsibilities and local financing for local authorities increased. 	<ul style="list-style-type: none"> • Civil service jobs and staffing requirements defined. • Service delivery standards for public agencies set, procedures streamlined in 5 agencies, 4 agencies re-engineered, and service delivery survey system pilot begun. • Independent Commission Against Corruption functioning. 	<p>Civil Service Modernization Legal & Judicial Dev LIC PSMAC I, II (III in High Case)</p> <p>NLS: Public Expenditure Review and Monitoring NLS: Strategy Implementation Reviews in Education, Health, and Agriculture NLS: Indep. Commission Against Corruption (IDF) NLS: Cooperatives Dev NLS: Urban Management Legal and Judicial Dev Urban Management (High Case)</p>	<ul style="list-style-type: none"> • Netherlands: Support for Central Statistical Organization. • Germany: Advisory service for MOPD; support to Office of the President; National Institute for Technicians and Instructors. • EU: Advisory service for MOPD. IMF: ESAF
<p>Judicial system Investment discouraged and costs imposed by unreliable jurisprudence, caused by poor judicial training, poor support services, lack of specialization, and low salaries of judges which encourage rent-seeking.</p>	<ul style="list-style-type: none"> • Modernization of curriculum and retraining of instructors in High Judicial Institute. • Retraining or replacement of judges. • Equip courts with adequate facilities, staff, and case management systems. • Raise salaries of judges substantially. 	<ul style="list-style-type: none"> • Judiciary qualifications substantially upgraded. • Salaries of judges greatly increased. • Enforcement mechanism functioning. 	<ul style="list-style-type: none"> • Half of judges retrained. • Legal rulings available to all judges in a timely manner. • Alternative dispute resolution methods widely used. 	<p>Legal and Judicial Dev LIC Full scale Legal and Judicial Development Project PSMAC I, II (III in High Case)</p>	
<p>Government ownership and regulation State ownership and control of commercial enterprises with monopoly control creates inefficiencies. Overregulation of economic activities suppresses efficiency and investment.</p>	<ul style="list-style-type: none"> • Privatization of all commercial goods and services-providing public enterprises. • Replacement of monopolies with competition. • Reduction of licensing and regulation to minimum necessary for protection of public interest. 	<ul style="list-style-type: none"> • Increased private investment. • Competitive entry into all domestic markets. • Regulatory framework greatly simplified. 	<ul style="list-style-type: none"> • Thirty public enterprises, including 2 major ones, privatized 	<p>NLS: Inclusive Growth CEM Privatization Support FIAS: Investment Law Review; Investor's Roadmap; GIA Strengthening; NLS: Oil and Gas Exploration and Management NLS: Financial Sector Reform NLS: Power Sector Restructuring</p>	<p>IMF: ESAF</p>

Issue and Problem Diagnosis	Remedial Actions	Country Performance Indicators	Bank Group Self-Evaluation Indicators	Bank Group Support	Other Partner Activities
<p>Fiscal management Budgeting process fails adequately to fund operation and maintenance of public infrastructure, or nonwage costs vs. wages. Inadequate annual funding of project works raises time and total cost to completion. Project choice is based on inconsistent criteria. Payments to suppliers are slow, causing higher costs, and financial controls are weak. Public revenue policy and administration are inefficient.</p>	<ul style="list-style-type: none"> • Establishment of medium-term framework for public expenditure planning, consolidating investment and recurrent costs. • Scaling down number of investment projects and prioritizing to reduce completion time of projects. • Adoption of standard criteria for inclusion of projects in investment program. • Acceleration of supplier payments process. • Strengthening of financial controls. • Reform of tax and customs administration. • Enhancement of cost recovery for public services. 	<ul style="list-style-type: none"> • All investments prioritized; and major ones selected based on economic assessment. • Completion time of projects cut by half. • Unit costs of public purchases cut by 25%. • Adequate O&M provided for all completed projects. • Fiscal deficit held below 5% on average. 	<ul style="list-style-type: none"> • MTEF and unified budget established. • Accounting and Financial Management System adopted. • Efficient income tax and customs regime • Cost recovery adequate for roads, electricity, water supply, health care. • Increased private investment in oil and gas exploration 	<p>NLS: Public Expenditure Review and Monitoring NLS: Strat. Implementation Reviews in Ed., Health, Ag. PSMAC I, II (III in High Case) NLS: Oil and Gas Exploration & Management NLS: Power Sector Restructuring NLS: Budgeting and Procurement Improvement NLS: Higher Education Rationalization</p>	<p>IMF: ESAF UNDP: Strengthening Central Org. for Control and Audit.</p>
<p>2. Private Investment for Jobs and Sustainable Economic Base</p>					
<p>Macroeconomic Stability Stabilization program has been successful, though challenged by fall in oil price.</p>	<ul style="list-style-type: none"> • Maintain fiscal and monetary discipline. • Address longer-term threats to stability from dependence on oil revenues, as oil output is expected to fall, and from exhaustion of groundwater supplying main population centers. 	<ul style="list-style-type: none"> • CPI inflation below 5%. • Internal balance sustainable. • External balance sustainable. 		<p>NLS: Public Expenditure Review and Monitoring PSMAC I, II (III in High Case) IDA Debt Reduction Facility</p>	<p>IMF: ESAF</p>
<p>Land tenure Lending and investment discouraged by insecure land tenure</p>	<ul style="list-style-type: none"> • Land mapping and ownership cadastre. • Establishment of capacity and system to keep land titles up to date. 	<ul style="list-style-type: none"> • Increased private investment 	<ul style="list-style-type: none"> • Recommendations for better land tenure security in urban & peri-urban areas. 	<p>NLS: Land Titling</p>	<p>France: Geodetic Survey</p>
<p>Legal structure Investment discouraged and costs imposed by gaps in coverage of laws, legalized monopolies, unnecessary licenses and approvals, absence of implementing regulations or by-laws for some laws, and lack of clarity in laws.</p>	<ul style="list-style-type: none"> • Modernization of business-related legislation where needed, including elimination of unnecessary monopolies, licenses and approvals. • Issuance of implementing regulations or by-laws as needed. 	<ul style="list-style-type: none"> • Enactment of improved Investment Law, Privatization Law, Aden Free Zone Law, Land Registration Law, and other legislation facilitating new private investment. • Increased private investment 	<ul style="list-style-type: none"> • Recommendations on investment-related legislation. 	<p>Legal and Judicial Dev LIC Privatization Support FIAS: Investment Law Review; Investors' Roadmap & GIA Strengthening. NLS: Institutions for Export Promotion NLS: Land Titling Legal and Judicial Dev</p>	
<p>Financial system Inadequate prudential regulation and enforcement in commercial banking permits unsound banking to continue. Public financial institutions are unsound and serve poorly. Access to long-term finance is extremely poor. No self-sustaining small and micro-finance systems. Accounting standards and training are weak. No stock market for equity financing.</p>	<ul style="list-style-type: none"> • Strengthening of Central Bank regulatory capacity. • Restructuring and privatization of public financial institutions. • Establishment of clear land tenure. • Establishment of commercial bank-based small and micro-finance, with income-based collateral, especially oriented to rural areas. • Promotion of credit cooperatives and other alternatives to banks. • Adoption of international accounting standards and training of accountants. • Establishment of over-the-counter securities market. 	<ul style="list-style-type: none"> • Commercial banks (public and private) return to financial health. • Specialized financial institutions privatized, made commercially viable, or liquidated. • Payment systems fully functioning. • Access to formal credit expanded by half. 	<ul style="list-style-type: none"> • FSAC objectives met. • Adequate donor support for technical improvements in financial sector. 	<p>Privatization Support IFC: Leasing Company NLS: Land Titling NLS: Financial Sector Reform Agenda NLS: Cooperatives Dev</p>	<p>IMF: ESAF Netherlands: Microcredit EU: Support to Bank Training AFESD: Financial TA</p>

Issue and Problem Diagnosis	Remedial Actions	Country Performance Indicators	Bank Group Self-Evaluation Indicators	Bank Group Support	Other Partner Activities
<p>Export development Regulatory barriers to investment. Uncertain land tenure. Undependable contracts. Legal and administrative problems in establishing functioning export zones.</p>	<ul style="list-style-type: none"> • Establishment of Aden Free Port. • Later establishment of other export zones. • Export promotion in sectors with comparative advantage. • Elimination of nonessential licensing and regulations. • Establishment of secure land titles and dependable judiciary. 	<ul style="list-style-type: none"> • Increased private and direct foreign investment. • Non-oil exports increase by at least 10% p.a. 	<ul style="list-style-type: none"> • Unnecessary regulations on investment reduced substantially. • Export promotion institutions strengthened. 	<p>FIAS: Investment Law Review; Investors' Roadmap & GIA Strengthening Legal and Judicial Dev LIC Legal and Judicial Dev Aden Growth Pole Dev NLS: Institutions for Export Promotion</p>	
<p>Basic Infrastructure Many areas lack secure provision of infrastructure services needed by investors. Public sector provision is inefficient and fails to provide for adequate operation and maintenance.</p>	<ul style="list-style-type: none"> • Prioritization of infrastructure needs by likely investor response. • Encouragement of private provision of infrastructure services. • Full cost recovery for providers of infrastructure services. 	<ul style="list-style-type: none"> • Increased private investment. • Private investments in, and operation of, infrastructure services. • Locational diversification of private investment. • High rate of growth of small and micro-investments. 	<ul style="list-style-type: none"> • Project-specific infrastructure completed within budget, with secure O&M financing. • Donor support mobilized for restructuring of power sector, rural electrification, rural access, cultural heritage in historic cities. 	<p>PSMAC I, II (III in High Case) Sana'a Emergency Power Public Works II Sana'a Water and Sanitation NLS: Irrigation Strategy NLS: Rural Access Strategy Rural Water and Sanitation Basic Education Expansion I and II Child Development I Health Reform/MCH II APC Spate Irrigation Rehabilitation and Improvement Agricultural Technology Sana'a Basin Water Managmt Municipal Water APC Aden Growth Pole Dev NLS: Urban Management NLS: Power Sector Restructuring Rural Access (High Case) Urban Management (High Case) NLS: Coastal Aquifers Development (High Case)</p>	<p>Arab Fund: Sana'a Water France: Telephone Exchanges; TV network; Electricity Adapting Japan: Television equipment KfW: Al-Hiwa Power Netherlands: Hadramaut Electrification; Support to Aden Port; AFESD: Electric Distribution Network; Hajja-ALKhashm Road UNDP: Rural Roads</p>
<p>Tourism Potential for employment generation in remote areas is unrealized because of lack of promotion effort, lack of security, lack of physical facilities and signage, lack of trained guides, and damage to historical sites by unregulated urban growth.</p>	<ul style="list-style-type: none"> • Protection and improvement of cultural sites. • Institutional reforms in tourism sector, including public-private partnership in financing promotion work and development strategy. • Active program of promotion abroad. • Provision of trained tourism staff and good signage. • Provision of inconspicuous security in areas of tribal unrest. 	<ul style="list-style-type: none"> • Tourism investment • Tourism revenues • Tourism employment 	<ul style="list-style-type: none"> • Tourism promotion organization with public-private partnership set up. • Donor support mobilized for protection and development of historic cities. 	<p>NLS: Inclusive Growth (CEM) NLS: Cultural Heritage Strategy Public Works II</p>	<p>EU: Tourism Dev Program GTZ: Netherlands: Restoration of Al America Mosque, Al Awqaf Library (Tarim), National Museum</p>

Issue and Problem Diagnosis	Remedial Actions	Country Performance Indicators	Bank Group Self-Evaluation Indicators	Bank Group Support	Other Partner Activities
<p>Oil and gas Oil output is expected to fall. Recovery rate of known reserves is poor. Income from leases is below potential. Investment in exploration is low. Gas development requires pipeline. No investment in processing industries.</p>	<ul style="list-style-type: none"> • Management of oil reserves for better recovery rate over longer period. • Improved Production Sharing Agreements and security to attract new oil/gas exploration. • Incentives for private gas pipeline investment. • Implementation of steps to diversify foreign exchange earnings and government revenue base. 	<ul style="list-style-type: none"> • Oil reserves lifespan extended and recovery rate enhanced. • Gas production and export begins. • Share of non-oil foreign exchange earnings (non-remittance) rises to 20%. 	<ul style="list-style-type: none"> • Major oil and gas firms bid competitively for exploration rights subject to agreements on efficient subsequent oil and gas exploitation. 	<p>NLS: Inclusive Growth (CEM) NLS: Oil and Gas Exploration & Management Aden Growth Pole Development</p>	<p>Netherlands: Truck supply for gas development</p>
<p>Agriculture Depletion of groundwater reduces potential farm incomes as land must shift from irrigated to rainfed or abandonment. Crop yields are low and stagnant. Credit for farm improvements is scarce. High value markets, especially for export, are not developed. Overdependence on qat as cash crop.</p>	<ul style="list-style-type: none"> • Implementation of water and agriculture strategies to manage water resource better and to minimize income loss as groundwater is depleted. • Development and extension of improved crop technology for higher yields, especially rainfed. • Establishment of viable rural finance system. • Development of water and associated infrastructure in Masila aquifer area to absorb migrants from groundwater stressed regions. • Attraction of private investments to rural areas to diversify incomes out of agriculture. 	<ul style="list-style-type: none"> • Average farmer income rises. • Agricultural exports rise. 	<ul style="list-style-type: none"> • Irrigation efficiency rises. • Average crop yields rise. • Coastal aquifer infrastructure development plans under preparation. 	<p>NLS: Agriculture Sector Note NLS: Irrigation Strategy NLS: Inclusive Growth (CEM) NLS: Agriculture Strategy Implementation Reviews Spate Irrigation Rehabilitation and Improvement Agricultural Technology Sana'a Basin Water Management NLS: National Qat Strategy Workshop NLS: Cooperatives Development Strategy NLS: Coastal Aquifers Development (High Case) Rural Access (High Case)</p>	<p>FAO: Ag Market Info Sys UNDP/WFP: Eastern Region Ag Development GTZ: Plant Protection, Ag. Innovation Development EU: Tihama Irrigation, Spate Irrig Rehab. Netherlands: Extension and Training, Fruit & Veg Market</p>
<p>3. Water Management for Environmental Sustainability and Social Peace</p>					
<p>Inadequate Resource Management Overall supply cannot sustain both municipal and irrigation demand in most areas; situation already critical in Sana'a and Taiz. Institutional capacity to manage groundwater use and urban systems is inadequate. Water prices do not reflect scarcity value. Municipal loss reduction and market transfers from irrigation to municipal can buy time to develop sustainable solutions. Watershed degradation exacerbates floods and reduces groundwater recharge. Sanitation is poor, O&M inadequate.</p>	<ul style="list-style-type: none"> • Municipal system upgrading with adequate cost recovery and private utility management, to reflect scarcity and reduce municipal losses. • Formation of water markets linking towns with rural well owners, to direct water to highest value uses. • Municipal sanitation upgrading with recycling and use of wastewater in nonfood crop irrigation. • Watershed protection to reduce floods, enhance groundwater recharge. 	<ul style="list-style-type: none"> • Policies and institutional arrangements to achieve groundwater sustainability for Sana'a Basin agreed. • Water-borne disease rate falls. 	<ul style="list-style-type: none"> • Autonomous and efficient local branches of NWSA, starting with Sana'a. • Water markets established in areas of major cities, starting with Taiz and Sana'a. • Subsidies on diesel fuel and water pumps eliminated. • Unaccounted-for municipal water reduced substantially. • Water prices reflect scarcity value. 	<p>NLS: Public Expenditure Reviews and Monitoring NLS: Agriculture Sector Note NLS: Irrigation Strategy Sana'a Water & Sanitation Rural Water & Sanitation Spate Irrigation Rehabilitation and Improvement Agricultural Technology Sana'a Basin Water Management NLS: Coastal Aquifers Development (High Case) Municipal Water APC</p>	<p>Arab Fund: Sana'a Water Netherlands: Radh WSS Water Resource Mgt., Rural WSS, Support to Environmental Protection Council; UNDP: Sustainable Env. Management; Sustainable Water Resources Mgt. UNICEF: Rural WSS Japan: Rural Water Supply GTZ: Training in Water Sector Management, NWSA TA KFW: Water Loss Reduction; Aden Prov'l Towns WSS, Zabid Sewerage EU: Rural WS Rehab - Lahj FAO: Technical Capacity in Irrigation Subsector</p>

Issue and Problem Diagnosis	Remedial Actions	Country Performance Indicators	Bank Group Self-Evaluation Indicators	Bank Group Support	Other Partner Activities
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<p>Unsustainable Irrigated Agriculture Irrigation accounts for 93% of all water use, and 80% is from groundwater. It is unsustainable in many areas even at maximum efficiency. It is now very inefficient, and efficiency improvements can buy time. Exhaustion of aquifers leads to loss of farm incomes and farm employment, degradation of soils by salination, and outmigration, which if not prepared for will produce social conflict. Subsidy on diesel fuel exacerbates overpumping of groundwater.</p>	<ul style="list-style-type: none"> • Subsidization for rapid adoption of water conserving irrigation practices, with limit on new irrigation area. • Phasing out of subsidies that encourage overuse of groundwater. • Formation of area-based groundwater management associations of users. • Transfer of spate irrigation management and O&M responsibility to user groups. • Development of Masila aquifer and any other large sources of water to attract migrants from areas where exhaustion of usable groundwater is near. 	<ul style="list-style-type: none"> • Policies and institutional arrangements to achieve groundwater sustainability for Sana' a Basin agreed. • Spate systems support own O&M. 	<ul style="list-style-type: none"> • Average irrigation efficiency rises. • Subsidies on diesel fuel and water pumps eliminated. • Coastal aquifers infrastructure development plans under preparation. 	<p>NLS: Public Expenditure Monitoring NLS: Agricultural Sector Note NLS: Irrigation Strategy Spate Irrigation Rehabilitation and Improvement Agricultural Technology Sana' a Basin Water Management NLS: Coastal Aquifers Development (High Case)</p>	<p>FAO: Ag Market Info Sys UNDP/WFP: Eastern Region Ag Development GTZ: Plant Protection, Ag. Innovation Development EU: Tihama V Irrigation, Wadi Hadramaut Spate Irrigation Rehab. Netherlands: Extension and Training, Fruit & Veg Market</p>
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4. Targeted Social Improvements for Poverty Alleviation

<p>Basic education in deprived areas, especially for girls Poor, especially rural, areas have especially low gross enrollment rates, too few qualified teachers, higher dropout rates, and lower pass rates. Enrollment rates for girls in rural areas are far lower than for boys. Lack of separate toilet facilities and prospects for going on to high school discourage girls' enrollment in basic education. Education management weaknesses result in waste of resources and low quality. Classroom capacity is inadequate, but budgeting methods and corruption delay completion of new construction and raise unit costs. Expenditure on non-wage O&M for schools is too low. Teacher incentives are inadequate.</p>	<ul style="list-style-type: none"> • Increase in public education expenditure in poorer areas. • Rebalancing of O&M with investment expenditures. • Improvement of teacher, principal and inspector training, with particular emphasis on female teachers and principals. • Curriculum modernization. • Devolution of responsibility for building and managing primary schools to local bodies, with national standards. • Redesign of new schools to provide separate toilet facilities for girls. • More high schools for girls. • Fee rebates for girls of poor families. 	<ul style="list-style-type: none"> • Female literacy rate. • Gross enrollment rates, girls and boys. • Share of girls and boys completing six years of school. 	<ul style="list-style-type: none"> • Project-specific indicators. • Well-coordinated donor support of main sector objectives. 	<p>Public Works II NLS: PER – Education NLS: Higher Education Rationalization PSMAC I, II (III in High Case) NLS: Education Strategy Implementation Reviews Child Development I Basic Education Expansion I and II Social Fund II (High Case)</p>	<p>Netherlands: Basic Ed.; Scholarships; Girls' Ed. UNICEF: Community Schools, teacher training, Area-based primary ed.; Textbook production; WFP: Basic Education UNHCR: Scholarships for Refugees GTZ: Health & Environmental Ed.; Vocational Training Ctrs; Natl Inst. For Technicians & Instructors; Advice for Tech. Training KfW: Textbook press, Classroom construction Japan: Textbook transport EU: Tech-Voc Training; Univ of Sana' a Eng'g Dept Staff Training Islamic Bank: Classroom construction</p>
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Issue and Problem Diagnosis	Remedial Actions	Country Performance Indicators	Bank Group Self-Evaluation Indicators	Bank Group Support	Other Partner Activities
<p>Public health Health indicators are especially poor in lower income areas. Resources for public health are inadequate, allocated inefficiently and with an urban bias, and managed poorly. Qat consumption increases infant mortality and impairs child development especially in low-income households.</p>	<ul style="list-style-type: none"> • Greater public health expenditure in relatively deprived areas. • Privatization of management of public hospitals and giving them autonomy. • Rebalancing of expenditures in favor of preventive and promotive programs, in particular women's and children's health. • Decentralization of primary care facilities management to community/subdistrict level. • Risk-sharing arrangements to replace hospital subsidies and fees at point of service. • Public information program on health and child development effects of qat consumption. 	<ul style="list-style-type: none"> • Infant and maternal mortality rates. • Contraceptive prevalence rate. • Child malnutrition rate. • Qat consumption in low-income households. 	<ul style="list-style-type: none"> • Project-specific indicators. • Donor support coordinated in support of main sectoral objectives. 	<p>NLS: Health Strategy Implementation Review PSMAC I, II (III in High Case) Child Development I Health Reform/MCH II APC NLS: National Qat Strategy Workshop</p>	<p>UNICEF: Health and Nutrition WFP: Aid to MCH Centers GTZ: Basic Drugs Institution; Advisory Services; Family Health & Family Planning KIW: Community Aid Netherlands: Health Manpower Institute; Dhamar, Aden & Urban Primary Health; Drugs Action; Community Based Reproductive Health; Shabwa Basic Needs Japan: TB control; Med Ctr. USAID: Child Survival UNFPA: Health & Reprod. Youth Program EU: Health Sector Reform; Flood Rehab Health; MCH & Planned Parenthood</p>
<p>Microenterprise development Few of the poor have access to credit. Public credit programs for them are small, not self-sustaining. Noncredit business services are weak.</p>	<ul style="list-style-type: none"> • Encouragement of commercial banks to launch programs of credit for small and microenterprises. • Support for establishment of producer cooperatives for credit, input supply, marketing, other business services. • Encouragement of contract farming for export crops, where appropriate. 	<ul style="list-style-type: none"> • Incremental employment and income by microenterprises. 	<ul style="list-style-type: none"> • Number of microenterprise borrowers. • Donor support for microenterprise enhanced and coordinated for best practice. 	<p>NLS: Cooperatives Development Strategy IFC: Agro-Industrial Exports Social Fund II (High Case)</p>	<p>Netherlands/UNCDF: Small Enterprise Prom'n GTZ: Beekeeping Promotion; Promotion of Small Scale and Micro Enterprises UNDP: Poverty Alleviation And Employment Gen.</p>
<p>Agriculture, livestock and fisheries Irrigation is inefficient. Spate irrigation is not maintained well and does not lack price signals, technology or administrative means to allocate water efficiently. Research and extension on profitable rainfed technologies are lacking. Alternatives to qat are undeveloped. Livestock productivity is very low. Upland livestock and cropping systems lack technical development. Fish marketing and export is below potential.</p>	<ul style="list-style-type: none"> • Improved irrigation technologies. • Rehabilitation of spate schemes and adoption of farmer-financed O&M. • Research to develop more profitable rainfed farming systems, profitable alternatives to qat, and environmentally sustainable livestock and crop-livestock production systems. • Establishment of water markets providing for sale of irrigation water to municipalities. • Access of rainfed farmers and pastoralists to credit for on-farm improvements, especially for improved irrigation. • Access of rural areas to markets for their products. • Pastoralist and fishermen's organizations for marketing. 	<ul style="list-style-type: none"> • Farmer income, rainfed and irrigated. • Pastoralist income. • Fishermen's income. 	<ul style="list-style-type: none"> • Area served by improved irrigation. • Crop yields improve 5% p.a. • Adequate donor support for applied agricultural research in place. • Adequate donor support for fisheries enforcement improvement and small scale fisheries development. 	<p>NLS: Agriculture Strategy Implementation Reviews NLS: Fisheries Strategy NLS: Irrigation Strategy NLS: Animal Resources (informal sector note) NLS: Rural Access Strategy Spate Irrigation Rehabilitation and Improvement NLS: National Qat Strategy Workshop Agricultural Technology NLS: Cooperatives Development Strategy Rural Access (High Case) NLS: Coastal Aquifers Development (High Case)</p>	<p>FAO: Ag Market Info Sys UNDP/WFP: Eastern Region Ag Development GTZ: Plant Protection, Ag. Innovation Development EU: Tihama Irrigation, Spate Irrig Rehab.; Fisheries Development IV (with IDA, IFAD); Fish Monitoring Netherlands: Extension and Training; Fruit & Veg Market; Seed Potato Prod. Center; France: Port of Hodeidah</p>

Issue and Problem Diagnosis	Remedial Actions	Country Performance Indicators	Bank Group Self-Evaluation Indicators	Bank Group Support	Other Partner Activities
<p>Community empowerment Central government lacks information and accountability to provide good local services, but no viable local alternative exists. Local self-help organizations are few and weak. Local revenue generation is negligible. Dependency attitude towards central government is common.</p>	<ul style="list-style-type: none"> • Phased devolution of responsibility to service-based community organizations or local government to manage basic education, health, water, road maintenance and other essential services, with an equalizing system of funds transfer from central government, and creation or strengthening of these organizations, including adequate revenue authority. • Requirement of community contribution to central government investments in community infrastructure. 	<ul style="list-style-type: none"> • Quality of local services. • Reduced unit costs of infrastructure. 	<ul style="list-style-type: none"> • Project-specific indicators. 	<p>Public Works II Spate Irrigation Rehabilitation and Improvement NLS: Aden Growth Pole Dev NLS: Cooperatives Development Strategy Basic Education Expansion I and II Child Development I Health Reform/MCH II (APC) NLS: Urban Management Urban Management (High Case) Social Fund II (High Case)</p>	<p>EU: Social Fund for Development Radda Barnen: Community Based Rehabilitation Netherlands: Dhamar Region Municipal Services UK: Sana'a Urb Settlements</p>
<p>Role of women Poverty and low quality of life are more serious among women. The large majority is illiterate, must work harder to bring water and fuel, prepare meals, care for children, etc. Nutrition is inferior, maternal mortality rate is high, legal rights are limited, access to public transport (hence most rural public services) is limited, and employment prospects are poor.</p>	<ul style="list-style-type: none"> • Integration of special requirements of women into design of projects (e.g., provision of public transport along with rural roads) and selection of projects (e.g., health and family planning, water supply and education particularly benefit women). • Placement of more women in positions to influence the selection and design of projects and the policies that affect women. 	<ul style="list-style-type: none"> • Women's poverty rate. • Women's literacy rate. • Women's employment rate. • Maternal mortality rate. • Total fertility rate. 	<ul style="list-style-type: none"> • Project-specific indicators. • Adequate and coordinated donor support. 	<p>NLS: Strategy Implementation Reviews for Health & Education NLS: Rural Access Strategy Civil Service Modernization Rural Water Supply and Sanitation Agricultural Technology Basic Education Expansion I & II Child Development I Health Reform/MCH II (APC) NLS: Cooperatives Development Rural Access (High Case) Social Fund II (High Case)</p>	<p>Netherlands: Women's Study Center (U. Sana'a); Aden & Hodeidah Women's Unions; Urban WID in Aden WFP: Household Food Security UNFPA: Integrating Women in Socioeconomic Process Oxfam: Empowerment of Women</p>
<p>Land Terraces are deteriorating. Deforestation reduces watershed productivity. Poor management of livestock reduces rangeland and watershed productivity. Soil erosion and salinization are worsening. Desertification reduces arable land.</p>	<ul style="list-style-type: none"> • Development and extension of more profitable and sustainable technology for rainfed agriculture. • Improved marketing of rainfed crops. • Strengthened watershed management measures and user groups to increase watershed productivity and stability. • Development and extension of systems of integrated livestock and rangeland management. 	<ul style="list-style-type: none"> • Rainfed farmer and pastoralist incomes. 	<ul style="list-style-type: none"> • Project-specific indicators. • Well coordinated donor support for improved land management. 	<p>NLS: Irrigation Strategy NLS: Animal Resources (informal sector note) Spate Irrigation Rehabilitation and Improvement Agricultural Technology NLS: Coastal Aquifers Development Strategy</p>	<p>CARE: Mahweet Terrace Rehabilitation Netherlands: Rural Land Use Planning UNDP: Sustainable Environmental Management IFAD: Tihama Environmental Protection</p>

**Yemen, Republic of - Selected Indicators of
Bank Portfolio Performance and Management**

Indicator	1996	1997	1998	1999
<i>Portfolio Assessment</i>				
Number of Projects under implementation ^a	25	24	25	26
Average implementation period (years) ^b	5.20	4.88	5.32	5.15
Percent of problem projects ^{a, c}				
by number	32.00	33.33	8.00	11.54
by amount	22.25	24.55	6.40	16.82
Percent of projects at risk ^{a, d}				
by number	76.19	45.45	18.18	18.18
by amount	68.91	36.91	11.87	20.13
Disbursement ratio (%) ^e	16.36	15.83	24.33	21.97
<i>Portfolio Management</i>				
CPPR during the year (yes/no)				
Supervision resources (total US\$)	1,253.65	1,252.99	1,571.62	1,246.93
Average Supervision (US\$/project)	50.15	52.21	62.86	47.96

Memorandum item	Since FY80	Last five FYs
Projects evaluated by OED		
by number	43	15
by amount (US\$ millions)	433.45	156.70
Percent rated U or HU		
by number	29.27	35.71
by amount	26.30	29.19

- a. As shown in the Annual Report on Portfolio Performance (except for current FY)
- b. Average age of projects in the Bank's country portfolio.
- c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).
- d. As defined under the Portfolio Improvement Program.
- e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: investment projects only.

Republic of Yemen - Bank Group Program Summary, FY 1999-2002
Proposed IDA Base Case Lending Program, FY 1999-2002

<i>FY</i>	<i>Project</i>	<i>US\$(M)</i>	<i>Strategic rewards^b</i> <i>(H/M/L)</i>	<i>Implementation^b</i> <i>risks (H/M/L)</i>
1999	Sana'a Emergency Power	54.0	M	L
	Public Works II	50.0	M	L
	Public Sector Management Adjustment Credit (PSMAC)	50.0	H	H
	Privatization Support	10.9	M	M
	Legal & Judicial Development LIC	2.5	M	L
	Sana'a Water Supply and Sanitation	25.0	M	M
	Subtotal	192.4		
2000	Civil Service Modernization	30.0	H	H
	Child Development	32.0	M	M
	Basic Education Expansion	50.0	H	M
	Rural Water Supply and Sanitation	15.0	M	L
	Spate Irrigation Rehabilitation and Improvement	45.0	M	L
	IDA Debt Reduction Facility (grant)	10.0	H	L
	Subtotal	182.0		
2001	PSMAC II	50.0	H	H
	Health Reform/MCH II (APC)	30.0	H	M
	Sana'a Basin Water Management	40.0	H	H
	Municipal Water (APC)	40.0	M	M
	Subtotal	160.0		
2002	Aden Growth Pole Development	50.0	H	M
	Legal and Judicial Development	30.0	H	H
	Basic Education Expansion II (APC)	50.0	H	L
	Agricultural Technology	15.0	H	M
	Subtotal	145.0		
	Total, FY 2000-2002	487.0		

Indicative Overall Assistance Program

Base Case

<i>Fiscal Year</i>	<i>Lending</i>	<i>Amount (US\$ m)</i>	<i>Non-Lending Services</i>
1999	Sana'a Emergency Power Public Works II Sana'a Water Supply and Sanitation Public Sector Management Adjustment (PSMAC) Legal and Judicial Development LIC ¹ Privatization Support <i>Total</i>	54.0 50.0 25.0 50.0 2.5 10.9 192.4	Public Expenditure Review Agriculture Sector Note Education Sector Reform Strategies Health Sector Strategies for Reform Fisheries Sector Strategy Irrigation Strategy Rural Access Strategy
2000	Civil Service Modernization Child Development I Basic Education Expansion Rural Water Supply and Sanitation Spate Irrigation Rehabilitation & Improvement IDA Debt Reduction Facility (grant) <i>Total</i>	30.0 32.0 50.0 15.0 45.0 10.0 182.0	Public Expenditure Monitoring Agricultural Strat. Implementation Review Education Strat. Implementation Review Health Strategy Implementation Review Inclusive Growth (CEM) ² Urban Management Strategy Investment Promotion (FIAS) ³ Higher Education Rationalization Cooperatives Development Strategy National Qat Strategy Workshop
2001	PSMAC II Sana'a Basin Water Management Municipal Water (APC) ⁴ Health Reform/MCH II (APC) <i>Total</i>	50.0 40.0 40.0 30.0 160.0	Public Expenditure Monitoring Agricultural Strat. Implementation Review Education Strat. Implementation Review Health Strat. Implementation Review Financial Sector Reform Agenda Power Sector Restructuring Institutions for Export Promotion Independent Commission Against Corruption (IDF) Oil and Gas Exploration and Management
2002	Legal and Judicial Development Aden Growth Pole Development Basic Education Expansion II (APC) Agricultural Technology <i>Total</i>	30.0 50.0 50.0 15.0 145.0	Budgeting and Procurement Improvement Land Titling

¹ Learning and Innovation Credit.

² Country Economic Memorandum.

³ Foreign Investment Advisory Service.

⁴ Adaptable Program Credit.

Indicative Overall Assistance Program

High Case

<i>Fiscal Year</i>	<i>Lending</i>	<i>Amount (US\$ m)</i>	<i>Non-Lending Services</i>	
1999	Sana'a Emergency Power	54.0	Public Expenditure Review	
	Public Works II	50.0	Agriculture Sector Note	
	Sana'a Water Supply and Sanitation	25.0	Education Sector Reform Strategies	
	Public Sector Management Adjustment (PSMAC)	50.0	Health Sector Strategies for Reform	
	Legal and Judicial Development LIC ⁵	2.5	Fisheries Sector Strategy	
	Privatization Support	10.9	Irrigation Strategy	
	<i>Total</i>	192.4	Rural Access Strategy	
2000	Civil Service Modernization	30.0	Public Expenditure Monitoring	
	Child Development I	32.0	Agricultural Strat. Implementation Review	
	PSMAC II	50.0	Education Strat. Implementation Review	
	Basic Education Expansion	50.0	Health Strat. Implementation Review	
	Rural Water Supply and Sanitation	15.0	Inclusive Growth (CEM)	
	Spate Irrigation Rehabilitation and Improvement	45.0	Urban Management Strategy	
	IDA Debt Reduction Facility (grant)	10.0	Investment Promotion (FIAS)	
		<i>Total</i>	232.0	Higher Education Rationalization
2001	PSMAC III	70.0	National Qat Strategy Workshop	
	Sana'a Basin Water Management	40.0	Cooperatives Development Strategy	
	Municipal Water (APC)	50.0	Public Expenditure Monitoring	
	Rural Access	40.0	Agricultural Strat. Implementation Review	
	Agricultural Technology	15.0	Education Strat. Implementation Review	
	Health Reform/MCH II (APC)	30.0	Health Strat. Implementation Review	
		<i>Total</i>	245.0	Financial Sector Reform Agenda
				Power Sector Restructuring
2002	Legal and Judicial Development	30.0	Coastal Aquifers Development Strategy	
	Aden Growth Pole Development	50.0	Institutions for Export Promotion	
	Basic Education Expansion II (APC)	50.0	Independent Commission Against Corruption (IDF)	
	Social Fund II	40.0	Oil and Gas Exploration and Management	
	Urban Management	45.0	Budgeting and Procurement Improvement	
	<i>Total</i>	215.0	Land Titling	

⁵ Learning and Innovation Credit.

Yemen, Republic of - IFC and MIGA Program, FY96-99

Category	Past			
	1996	1997	1998	1999
IFC approvals (US\$m) ^a	5.60	0.00	3.80	0.00
Sector (%)				
	0.00	0.00	0.00	0.00
Cement & Construction	0.00	0.00	100.00	0.00
Hotels & Tourism	100.00	0.00	0.00	0.00
TOTAL	100.00	100.00	100.00	100.00
Investment instrument (%)				
Loans	100.00	0.00	100.00	0.00
Equity	0.00	0.00	0.00	0.00
Quasi-Equity ^b	0.00	0.00	0.00	0.00
Other	0.00	0.00	0.00	0.00
TOTAL	100.00	100.00	100.00	100.00
MIGA guarantees (US\$m)	0.00	0.00	0.00	0.00
MIGA commitments (US\$m)	0.00	0.00	0.00	0.00

^aExcludes AEF projects.

^bIncludes quasi-equity types of both loan and equity instruments.

Republic of Yemen—Summary of Nonlending Services

<i>Product</i>	<i>Completion FY</i>	<i>Audience^a</i>	<i>Objective^b</i>
Recent completions			
Population Sector Study	1997	Government and Bank	Knowledge generation
Public Expenditure Review	1997	Government and Bank	Knowledge generation
Water Strategy Note	1998	Government and Public	Problem solving
Agricultural Strategy and Field Services	1998	Government and Bank	Knowledge generation/ Problem solving
Underway			
Country Assistance Strategy	1999	Bank and Public	Public debate
Public Expenditure Review (PER)	1999	Government and Public	Knowledge generation/ Problem solving
Fisheries Sector Strategy	1999	Government and Bank	Problem solving
Irrigation Strategy	1999	Government and Bank	Problem solving
Urban Management Strategy	2000	Government and Bank	Knowledge generation/ Problem solving
Planned			
Rural Access Strategy	1999	Government and Bank	Problem solving
Education Sector Reform Strategy	1999	Government and Bank	Problem-solving
Health Sector Strategies for Reform	1999	Government and Bank	Problem solving
Public Expenditure Monitoring	2000	Government and Bank	Problem solving
Agricultural Strategy Implementation Review	2000	Government and Bank	Problem solving
Education Strategy Implementation Review	2000	Government and Bank	Problem solving
Health Strategy Implementation Review	2000	Government and Bank	Problem solving
CEM – Inclusive Growth	2000	Government and Bank	Knowledge generation/ Problem solving
Investment Promotion (FIAS)	2000	Government and Bank	Problem solving
Higher Education Rationalization	2000	Government	Knowledge generation/ Problem solving
Cooperatives Development Strategy	2000	Government and Bank	Knowledge generation/ Problem solving
National Qat Strategy Workshop	2000	Government, Donors, Bank, public dissemination	Problem solving/ Public dissemination
Public Expenditure Monitoring	2001	Government and Bank	Problem solving
Agricultural Strategy Implementation Review	2001	Government and Bank	Problem solving
Education Strategy Implementation Review	2001	Government and Bank	Problem solving
Health Strategy Implementation Review	2001	Government and Bank	Problem solving
Financial Sector Reform Agenda	2001	Government and Bank	Problem solving
Power Sector Restructuring	2001	Government and Bank	Problem solving
Institutions for Export Promotion	2001	Government and Bank	Knowledge generation/ Problem solving
Independent Commission Against Corruption (IDF)	2001	Government and Donors	Problem solving/ Public debate
Oil and Gas Exploration and Management	2001	Government and Bank	Public debate Problem solving
Budgeting & Procurement Improvement	2002	Government and Bank	Problem solving
Land Titling	2002	Government and Bank	Knowledge generation/ Problem solving

a. Government, donor, Bank, public dissemination.

b. Knowledge generation, public debate, problem-solving.

Republic of Yemen Social Indicators

	Latest single year			Year	Same region/income group	
	1970-75	1980-85	1992-97		Middle East & North Africa	Low- income
POPULATION						
Total population, mid-year (millions)	7.0	10.1	16.0	1997	276.3	2,036.0
Growth rate (% annual average)	2.0	3.3	3.0	1992-97	2.6	1.8
Urban population (% of population)	16.4	24.4	35.0	1997	57.4	29.1
Total fertility rate (births per woman)	7.7	7.7	6.4	1997	4.0	3.2
POVERTY (% of population)						
National headcount index	..	..	19.1	1992	..	..
Urban headcount index	..	..	18.6		..	..
Rural headcount index	..	..	19.2		..	..
INCOME						
GNP per capita (US\$)	..	..	270	1997	2,070	490
Consumer price index (1987=100)	..	..	614	1998	204	275
Food price index (1987=100)	..	95	..		..	..
INCOME/CONSUMPTION DISTRIBUTION						
Share of income or consumption (% of income or consumption)						
Lowest quintile	..	..	6.1	1992	..	..
Highest quintile	..	..	46.1	1992	..	..
SOCIAL INDICATORS						
Public expenditure						
Health (% of GDP)	..	..	2.6	1990-95	4.3	4.2
Education (% of GNP)	..	..	6.5	1996	5.6	3.6
Social security and welfare (% of GDP)	..	..	..		..	..
Net primary school enrollment rate (% of age group)						
Total	..	..	51.5	1994	..	..
Male	..	..	64.0	1994	..	..
Female	..	..	38.1	1994	..	..
Access to safe water (% of population)						
Total	..	..	39	1995	71	76
Urban	..	..	74	1995	89	80
Rural	..	..	14	1995	55	72
Immunization rate (% under 12 months)						
Measles	..	2.0	51	1998	83	80
DPT	..	1.0	57	1998	90	81
Child malnutrition (% under 5 years)	..	..	30	1997	16	..
Life expectancy at birth (years)						
Total	43	51	54.3	1997	67	63
Male	42	50	53.8	1997	66	62
Female	43	51	54.8	1997	68	64
Mortality						
Infant (per thousand live births)	180	121	95.7	1997	50	68
Under 5 (per thousand live births)	..	198	137	1997	63	94
Adult (15-69)						
Male (per 1,000 population)	449	382	340	1997	211	231
Female (per 1,000 population)	388	304	330	1997	177	206
Maternal (per 100,000 live births)	..	..	1,400		..	..

Republic of Yemen - Key Economic Indicators

Indicator	Actual		Estimate		Projected				
	1995	1996	1997	1998	1999	2000	2001	2002	2003
National accounts (as % GDP at current market prices)									
Gross domestic product	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture ^a	21.5	16.5	16.3	16.5	16.2	16.3	16.3	16.4	16.4
Industry ^a	32.5	45.8	45.2	45.7	44.9	45.3	45.3	45.4	45.5
Services ^a	39.8	31.5	31.2	31.5	30.9	31.2	31.2	31.3	31.4
Total Consumption	97.8	108.0	86.5	99.1	94.0	91.5	90.0	89.0	87.8
Gross domestic fixed investment	20.9	20.8	23.5	21.8	23.2	24.3	25.8	26.3	26.8
Government investment	3.3	7.1	7.8	6.0	7.2	7.9	7.9	7.9	8.1
Private investment (includes increase in stocks)	22.1	18.2	15.7	15.8	16.0	16.4	17.9	18.4	18.7
Exports (GNFS) ^b	24.9	17.2	44.1	33.0	35.6	35.8	34.1	32.8	31.8
Imports (GNFS)	48.1	50.4	54.2	53.9	52.8	51.6	49.9	48.0	46.4
Gross domestic savings	2.2	-8.0	13.5	0.9	6.0	8.5	10.0	11.0	12.2
Gross national savings ^c	6.8	-0.7	23.9	16.6	20.5	22.1	23.6	24.2	25.0
<i>Memorandum items</i>									
Gross domestic product (US\$ million at current prices)	11001	5309	5731	5335	5443	5800	6121	6510	6945
Gross national product per capita (US\$, Atlas method)	260.0	250.0	270.0	300.0	300.0	290.0	300.0	310.0	320.0
Real annual growth rates (%, calculated from 1990 prices)									
Gross domestic product at market prices	8.2%	5.6%	5.2%	2.7%	5.3%	4.0%	4.5%	5.0%	5.2%
Gross Domestic Income	11.6%	5.5%	18.0%	0.5%	6.6%	3.9%	4.7%	5.1%	5.3%
Real annual per capita growth rates (%, calculated from 1990 prices)									
Gross domestic product at market prices	4.4%	0.9%	1.8%	-0.6%	1.9%	0.7%	1.1%	1.6%	1.8%
Total consumption	0.0%	11.5%	-0.8%	5.5%	-0.8%	-1.5%	-0.4%	0.7%	0.9%
Private consumption	4.6%	15.1%	-9.2%	5.1%	-2.1%	-0.3%	-0.2%	1.0%	1.1%

(continued)

Republic of Yemen - Key Economic Indicators
(Continued)

Indicator	Actual		Estimate		Projected				
	1995	1996	1997	1998	1999	2000	2001	2002	2003
Balance of Payments (US\$m)									
Exports (GNFS) ^b	2180.8	2492.5	2530.2	1761.3	1936.1	2076.7	2088.7	2133.9	2206.8
Merchandise FOB	1980.0	2263.0	2264.0	1517.0	1703.0	1840.0	1858.0	1916.0	1978.0
Imports (GNFS) ^b	2492.8	2893.5	3105.2	2876.3	2873.1	2994.7	3055.7	3126.9	3221.8
Merchandise FOB	1819.4	2283.4	2397.6	2226.9	2253.5	2365.5	2442.5	2547.6	2613.6
Resource balance	-312.0	-401.0	-575.0	-1115.0	-937.0	-918.0	-967.0	-993.0	-1015.0
Net current transfers (including official current transfers)	1104.0	1189.0	1254.0	1289.0	1310.0	1334.0	1389.0	1429.0	1475.0
Current account balance (after official capital grants)	193.0	106.0	22.0	-277.0	-147.0	-130.0	-133.0	-138.0	-128.0
Net private foreign direct investment	-218.0	-60.0	-138.0	-187.0	-203.0	-204.0	-204.0	-202.0	-201.0
Long-term loans (net)	-694.0	-521.0	-80.3	10.0	20.0	55.0	132.0	142.0	132.0
Official	55.1	105.9	45.1	6.9	-31.4	-55.7	-38.0	-75.9	-85.8
Private	-749.1	-626.9	-125.4	3.1	51.4	110.7	170.0	217.9	217.8
Other capital (net, including errors and omissions)	918.0	744.0	498.3	154.0	304.0	235.0	247.0	267.0	240.0
Change in reserves ^d	-199.0	-269.0	-302.0	300.0	26.0	44.0	-42.0	-69.0	-43.0
<i>Memorandum items</i>									
Resource balance (% of GDP at current market prices)	-2.8%	-7.6%	-10.0%	-20.9%	-17.2%	-15.8%	-15.8%	-15.3%	-14.6%
Real annual growth rates (1990 prices)									
Merchandise exports (FOB)	-6.6%	-5.6%	6.3%	-16.5%	0.4%	4.7%	-1.1%	1.1%	1.2%
Primary	-0.6%	-5.2%	6.5%	-16.1%	0.1%	4.6%	-1.2%	1.2%	1.2%
Manufactures	-65.4%	-14.9%	0.9%	-27.1%	11.1%	11.0%	0.2%	0.8%	1.3%
Merchandise imports (CIF)	-13.4%	59.6%	6.7%	-4.9%	-1.1%	0.8%	1.4%	1.7%	0.7%
Public finance (as % of GDP at current market prices)^e									
Current revenues	21.3	38.4	37.7	30.4	31.1	32.4	32.4	31.8	31.7
Current expenditures	24.9	34.8	32.2	30.8	28.0	27.4	26.5	25.9	25.4

(Continued)

Republic of Yemen - Key Economic Indicators
(Continued)

Indicator	Actual		Estimate			Projected				
	1995	1996	1997	1998	1999	2000	2001	2002	2003	
Current fiscal surplus	-3.6	3.6	5.5	-0.4	3.1	5.0	5.9	5.9	6.3	
Capital expenditure	3.3	7.1	7.8	6.0	7.2	7.9	7.9	7.9	8.1	
Overall fiscal balance	-6.9	-3.5	-2.3	-6.4	-4.1	-2.9	-2.0	-2.0	-1.8	
Foreign financing	0.5	2.5	-0.5	-1.2	-1.9	-2.2	-1.2	-1.7	-1.7	
Monetary indicators										
M2/GDP (at current market prices)	55.3	41.0	40.3	42.8	39.1	39.1	39.1	39.1	39.1	
Growth of M2 (%)	40.6	8.6	10.7	4.5	5.0	12.9	10.8	9.7	9.1	
Private sector credit growth / total credit growth (%)	51.3	-12.1	117.6	2.4	93.3	92.8	91.9	91.5	89.4	
Price indices(1990 =100)										
Merchandise export price index	79.7	96.4	90.7	72.8	81.4	84.0	85.7	87.4	89.2	
Merchandise import price index	103.3	81.2	79.9	78.0	79.8	83.1	84.6	86.8	88.4	
Merchandise terms of trade index	77.1	118.7	113.5	93.3	101.9	101.0	101.3	100.8	100.9	
Real exchange rate (US\$/LCU) ^f	76.6	48.8	51.5	47.9	45.8	45.7	45.0	44.5	44.0	
Real interest rates										
Consumer price index (% growth rate)	62.5%	27.3%	6.3%	11.1%	9.2%	7.0%	6.0%	7.5%	7.0%	
GDP deflator (% growth rate)	53.2%	40.1%	7.2%	-4.2%	9.1%	8.6%	6.0%	4.5%	3.7%	

- a. If GDP components are estimated at factor cost, a footnote indicating this fact should be added.
b. "GNFS" denotes "goods and nonfactor services."
c. Includes net unrequited transfers excluding official capital grants.
d. Includes use of IMF resources.
e. Should indicate the level of the government to which the data refer.
f. "LCU" denotes "local currency units." An increase in US\$/LCU denotes appreciation.

Republic of Yemen - Key Exposure Indicators

Indicator	Actual		Estimate			Projected			
	1995	1996	1997	1998	1999	2000	2001	2002	2003
Total debt outstanding and disbursed (TDO) (US\$m) ^a	9140	9333	4156	3763	3928	3975	4052	4168	4229
Net disbursements (US\$m) ^a	88	331	66	-30	103	31	147	154	132
Total debt service (TDS) (US\$m) ^a	92	123	127	152	203	173	187	183	170
Debt and debt service indicators (%)									
TDO/XGS ^b	280.0	256.1	111.4	126.3	123.5	118.8	118.8	119.3	117.1
TDO/GDP	183.1	175.8	72.5	70.5	72.2	68.5	66.2	64.0	60.9
TDS/XGS	2.8	3.4	3.7	6.8	7.5	5.1	5.1	5.1	5.2
Concessional/TDO	26.9	25.4	58.0	64.7	61.7	60.1	58.0	54.6	51.8
IBRD exposure indicators (%)									
Preferred creditor DS/public DS (%) ^c	82.7	66.9	29.7	37.6	42.1	36.8	34.8	35.4	36.2
IDA TDO (US\$m) ^d	827	893	978	1056	1132	1209	1274	1307	1326

- a. Includes public and publicly guaranteed debt, private nonguaranteed, use of IMF credits and net short-term capital.
- b. "XGS" denotes exports of goods and services, including workers' remittances.
- c. Preferred creditors are defined as IBRD, IDA, the regional multilateral development banks, the IMF, and the Bank for International Settlements.
- d. Includes present value of guarantees.
- e. Includes equity and quasi-equity types of both loan and equity instruments.

**Status of Bank Group Operations in Yemen, Republic of
Operations Portfolio**

Project ID	Fiscal Year	Borrower	Purpose	Original Amount in US\$ Millions			Difference Between expected & actual disbursements a/ Orig Frm Rev'd	Last PSR Supervision Rating b/		
				IDA	Cancel	Undis		DO	IP	
Number of Closed Projects: 90										
Active Projects										
5884	1990	Government of Yemen	Tarim Water Supply	12.00	0.00	2.25	1.61	0.00	S	S
5878	1990	Government of Yemen	Power III	15.50	0.00	3.77	2.73	0.00	S	S
5892	1991	Ministry of Fisheries	Fisheries IV	13.20	0.00	5.90	6.01	0.00	S	S
5806	1991	Government of Yemen	Multi-Mode Transport	35.80	0.00	5.83	-2.52	.36	S	S
5835	1991	Government of Yemen	Secondary Teacher Training	19.40	0.00	.71	.97	.76	S	S
5836	1992	Government of Yemen	Land & Water Conservation	32.80	5.04	4.83	8.83	3.91	S	S
5810	1992	Government of Yemen	Nat.Agric.Sect.Mgmt	14.40	5.33	2.96	7.80	1.68	S	S
5910	1993	Government of Yemen	Family Health	26.60	0.00	18.91	17.43	6.24	S	U
5904	1993	Government of Yemen	Basic Education	19.70	0.00	7.91	7.55	1.85	S	S
5911	1994	Government of Yemen	Education Sector	33.00	0.00	26.29	17.86	.40	S	S
43109	1996	Government of Yemen	Public Works	25.00	0.00	3.92	-2.57	0.00	S	S
5912	1996	Government of Yemen	Vocational Training	24.30	0.00	18.17	10.34	0.00	S	S
41267	1996	Government of Yemen	Transport Rehab.	37.00	0.00	28.46	22.43	0.00	S	S
48522	1997	Government of Yemen	Flood Emergency	30.00	0.00	15.83	5.55	0.00	S	S
43367	1997	Government of Yemen	Taiz W.S. Pilot Project	10.20	0.00	6.07	6.09	.47	S	S
41199	1997	Government of Yemen	Social Fund Development	30.00	0.00	19.11	-2.59	0.00	S	S
43101	1998	Government of Yemen	Financial Sec.Adj. Credit	80.00	0.00	29.17	29.38	0.00	S	U
5902	1998	Ministry of Finance	S.Gov Agri. Privatization	24.70	0.00	23.09	4.91	0.00	S	S
39171	1998	Government of Yemen	Seeds & Agric. Services	12.50	0.00	11.26	.74	0.00	S	S
50530	1999	Government of Yemen	Sana'a Emergency Power	54.00	0.00	51.88	1.79	0.00	S	S
60132	1999	Government of Yemen	Public Works II	50.00	0.00	48.30	0.00	0.00	-	-
62837	1999	Government of Yemen	PSMAC	50.00	0.00	48.57	0.00	0.00	-	-
Total				650.10	10.37	383.19	144.34	15.67		

	Active Projects	Closed Projects	Total
Total Disbursed (IDA):	246.43	862.83	1,109.26
of which has been repaid:	0.00	71.55	71.55
Total now held by IDA:	639.73	756.33	1,396.06
Amount sold	0.00	0.00	0.00
Of which repaid	0.00	0.00	0.00
Total Undisbursed	383.19	3.45	386.64

- a. Intended disbursements to date minus actual disbursements to date as projected at appraisal.
b. Following the FY94 Annual Review of Portfolio performance (ARPP), a letter based system was introduced (HS = highly Satisfactory, S = satisfactory, U = unsatisfactory, HU = highly unsatisfactory): see proposed Improvements in Project and Portfolio Performance Rating Methodology (SecM94-901), August 23, 1994.

Note: Disbursement data is updated at the end of the first week of the month.

Yemen, Republic of
STATEMENT OF IFC's
Committed and Disbursed Portfolio
As of February 1, 1999
(In US Dollar Millions)

FY Approval	Company	Committed				Disbursed			
		IFC				IFC			
		Loan	Equity	Quasi	Partic	Loan	Equity	Quasi	Partic
1998	Radfan	3.80	0.00	0.00	0.00	3.80	0.00	0.00	0.00
	Total Portfolio:	3.80	0.00	0.00	0.00	3.80	0.00	0.00	0.00
		Approvals Pending Commitment							
		Loan	Equity	Quasi	Partic				
1999	Aden Silos & Mills	12.00	0.00	0.00	0.00				
	Total Pending Commitment:	12.00	0.00	0.00	0.00				

Yemen: CAS Summary of Development Priorities

Network areas	Country performance	Major issue	Country priority	Bank priority	Reconciliation of Country and Bank priorities
Poverty Reduction and Economic Management					
♦ Poverty reduction	Fair	Information, isolation, Public capacity	High	High	
♦ Public sector	Fair	Weak institutions, rule of law, enforceability of contracts, transparency	High	High	
♦ Economic policy	Good	Implementation capacity	High	High	
♦ Gender	Poor	Illiteracy, access to public services	Moderate	High	Government agrees on IDA support on gender issues
Human Development Department					
♦ Education	Fair	Rural/female education, decentralized provision	High	High	
♦ Health, nutrition, population	Fair	Maternal/child mortality, decentralized provision	High	High	
♦ Social protection	Fair	Capacity to target vulnerable groups, cost	Moderate	Low	After providing TA, Bank gave lead in support to EU
Environment & Socially Sustainable Development					
♦ Rural development	Good	Decentralization, access, local capacity	High	High	
♦ Urban development	Fair	Decentralization, local capacity, urban migration	High	Moderate	IDA support, included in High Case, partly conditional on environment for decentralization
♦ Environment	Poor	Water, wastewater, solid waste, deforestation, desertification	High	High	
♦ Social development	Fair	Participation, youth, qat	Medium	Medium	
Finance, Private Sector and Infrastructure					
♦ Financial sector	Fair	Bank insolvency, access to credit, lack of capital market, Central Bank capacity	Moderate	Moderate	
♦ Private sector	Poor	Enforceability of contracts, regulatory system, land tenure, public monopolies	Moderate	High	Government agrees on IDA support for privatization, judicial development; FIAS work on regulatory system
♦ Energy and mining	Good	Management of oil/gas/mining concessions; private power provision	High	Moderate	Private investors; TA planned; lending possible under limited conditions
♦ Infrastructure	Good	Rural access, water, mix of public and private provision	High	High	

