

**CONSULTATIVE GROUP MEETING FOR THE
REPUBLIC OF YEMEN
London - UK , November 15-16, 2006**

**Statement by the World Bank
Opening Session
November 15, 2006**

Your Excellency the President of the Republic of Yemen,

Excellencies Ministers,

Distinguished Delegates,

Dear Colleagues from Multilateral Organizations,

I am very happy to welcome you once again on behalf of the World Bank for this fourth meeting of the Consultative Group for Yemen.

Yemen has scored important development successes since unification in 1990. These successes are even more impressive given the starkly dissimilar economic systems that were brought together. I will highlight a few of these key successes. First, throughout the 1990s, Yemen achieved a reasonable 5 percent annual GDP growth rate, securing a decent 2 percent per capita growth. There was a significant reform program in the second half of the 1990s which controlled inflation, liberalized trade, reduced subsidies, unified the exchange rate and reformed the financial sector. Much of the growth in this period was led by private sector even as the government fiscal deficit was reined in at reasonable levels. Second, Yemen achieved this growth while overcoming several adverse shocks—the return of hundreds of thousands workers from the Gulf, a costly civil war and swings in oil prices. Third, it improved its human development index by the second highest increase for all low income countries till recently. Particularly in education, Yemen has made great strides in improving access with gross primary enrollment improved from 65 percent in 1990 to 83.5 percent in 2003. Fourth, though poverty remains high and widespread with two out of every five Yemeni counted as poor in 1998, social protection mechanisms have improved and both the Social Fund for Development and Public Works Programs have received recognition for their efficiency and development impact.

The achievements of the 1990s were followed by a period of hiatus in progress and in reforms between 2000-2005 which is the period of the Second Five Year Development Plan and the First PRSP. This lack of progress in poverty reduction, per capita income growth and most human development indicators has been candidly acknowledged in the Government's Progress Report for the First PRSP, the Completion Report for the Bank's 2002-2005 Country Assistance Strategy and the 1999-2005 Country Assistance Evaluation undertaken by the World Bank's

Independent Evaluation Group. As many of you also know, this lack of progress in policy performance led to declining Country Policy and Institutional Assessment (CPIA) ratings which are a key input into the IDA Performance Based Allocation system and there was consequently a sharp reduction (34%) in IDA allocations in FY2005. Important lessons were learned from this period and were incorporated into the design of the 2006-2010 Third Socio-Economic Development Plan for Poverty Reduction as well as in the World Bank's 2006-2009 Country Assistance Strategy.

I will focus the remainder of my statement on three main topics: Yemen's development challenges; actions that the Government is taking to address them; and the support that the World Bank is providing to the Government in support of its programs.

Yemen's Development Challenges

Yemen remains confronted by four major challenges.

The first challenge is to diversify its economy from a declining oil sector. Although oil reserves could increase in the future and gas exports could partially offset the loss of oil revenues, non-oil growth will be crucial to generate employment and for generating new fiscal revenues.

The second challenge is to improve governance as good governance and anti-corruption measures are key underpinnings both for improved public service delivery as well as for private sector development.

The third challenge is the worsening water crisis. The use of groundwater has been driving rural growth for the past 30 years, but the present rate of depletion is unsustainable.

The fourth challenge is Yemen's population growth. If it continues at its current rate of 3 percent annually, the high population growth will reduce per capita income growth and impose additional costs of public service delivery at a time when fiscal resources are declining.

The Third Socio-Economic Development Plan for Poverty Reduction provides the Government's vision for addressing these four inter-related challenges.

Implementation of the Plan

Over the last eighteen months, Government has recommenced key economic and governance reforms. Initially, several difficult decisions were taken to improve the fiscal management including: doubling administered prices of petroleum products to reduce the fiscal burden of subsidies; introducing in a phased manner a broad based VAT to improve fiscal revenues.; adopting a comprehensive public finance management strategy; and implementing a civil service reform program particularly with regard to eliminating a substantial number of ghost workers and double-dippers.

In 2006, the government defined and began implementing its National Reform Agenda covering four major reform areas of anti-corruption, rule of law, improving the investment climate and enhancing political participation. The Government has completed many of the key

upfront actions – either legislative or policy and institutional reforms – and a comprehensive status report on progress has been circulated as a background document for the CG. I will highlight two key accomplishments.

- First, a central pillar of this reform agenda is to improve public procurement. Early in the year, the Government introduced a national procurement manual and standard bidding documents. Subsequently, ministries have started monthly web-based disclosure of procurement information. Most recently, in early November, a new procurement law was sent to Parliament which will provide the institutional framework to raise public procurement practices to international standards. This work has been complemented by a new financial disclosure law for all public servants and a new anti-corruption law – which draws on international best practice - is under discussion in Parliament.
- Second, considerable efforts have been undertaken to increase judicial independence and the functioning of the judiciary. The separation of power between the executive and the judiciary has been achieved by making the head of the Supreme Court as the head of the Supreme Judicial Council. Many personnel related actions (hiring, firing and training) have also been taken to improve court performance in addition to actions to improve the court information infrastructure.

Looking ahead, there are two key challenges:

- First, completing the implementation of the National Reform Agenda. The upfront legislation, such as the Financial Disclosure Bill, will need to be followed up with the establishment of new institutions and procedures to ensure that the new legislative framework is well implemented.
- Second, given that the first phase of the NRA was successful in focusing attention on a limited number of actions, the Government needs to consider adopting a similar approach to focusing attention on the next set of priority actions that could constitute a second phase of the National Reform Agenda.

World Bank Support

The World Bank has supported the government's program through projects and through non-lending advisory services for an extended period of time. Between 2002 and 2005, the limited progress in implementing projects reflected the lack of progress in the Government's own programs i.e. the Bank's portfolio had a few long-term problem projects and disbursement rates stood at around 16 percent per annum. The non-disbursed portfolio stood at around \$500 million with annual disbursements of between \$85-95 million offset by new commitments of \$100 million per annum. However, starting from July 2005, the Bank's portfolio of projects started turning around through an intensive effort made by the Government under the leadership of the Ministry of Planning and International Cooperation and the Ministry of Finance. Actions were taken to improve performance in long-term problem projects (health and civil service reform) and disbursement ratios increased significantly to 26 percent or around \$147 million in FY2006. As a result of this improved performance, Yemen's IDA allocation increased by 11 percent in FY2007. The projects in our portfolio with the highest development impact include projects in

basic education and projects supporting the Social Fund for Development and the Public Works Program. There are also several ongoing projects in urban and rural water supply, irrigation and water resource management as well as urban development. Projects approved under the new Country Assistance Strategy include: rural roads, power, fisheries and rainfed agriculture and livestock development.

Our non-lending advisory services have also been key activities in helping the Government in its reform program. First, as the Government was preparing its Third Five Year Plan, the Bank prepared a Development Policy Review as a key analytical input which provided an integrative overview. Second, the Bank has provided several key thematic and sectoral diagnostic reports including an Investment Climate Assessment that has gauged the constraints facing the private sector; a Country Social Analysis that has assessed the social constraints; a Country Water Resources Assistance Strategy that has provided integrative advice on the water crisis; and an Urban Land Management and Registration policy report. Third, the Bank provides ongoing technical assistance in several key areas including: public financial management; procurement; statistical capacity building; and children and youth issues.

Finally, as I have previously mentioned, the volume of the World Bank's financial support to Yemen is determined by the IDA Performance Based Allocation system. We remain optimistic that as the impact of the recently improved policy performance is reflected over time in the CPIA ratings, Yemen's IDA allocation would increase from current levels of around \$100 million per annum. As we have acknowledged in our Country Assistance Strategy, current levels of support are modest given Yemen's immense financing needs.

As we move forward, expects that our larger contribution to Yemen's development will continue to come from: undertaking a catalytic role in encouraging other development partners to assist Yemen (with this CG being a part of that effort); providing technical assistance to the Government and working with other donors to define sector and thematic strategies and improve delivery mechanisms; helping in improving core Government systems and, exceptionally, using projects to demonstrate new implementation approaches that, if successful, can be mainstreamed by the Government and other development partners.

In closing, I would like to commend the Government for the recent progress it has made and encourage it to stay the course in successfully implementing its National Reform Agenda and Third Plan as well as projects financed both from its won resources and those from its development partners around the table here today. The World Bank remains committed to working with you and with other development partners to support you in implementing these programs.

Thank you very much.
Emmanuel Mbi
Country Director