

**CONSULTATIVE GROUP MEETING FOR THE  
REPUBLIC OF YEMEN  
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**Statement by the World Bank  
Public Sector Investment Program  
November 16, 2006**

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Excellencies, Ladies and Gentlemen,

I would like to make brief remarks about the Government's four-year Public Investment Program and its overall external financing requirements and then lead the discussion to the World Bank's financial assistance.

**The Public Investment Program (2007-2010)**

The four-year PIP (2007-2010) was prepared following the publication of the Third Five-Year Socio Economic Plan for Poverty Reduction, which is also the second PRSP. It presents details of the ongoing and planned public investment projects and programs aimed at achieving the objectives of the Third Plan, including expected sources of financing. A key purpose of the PIP is to identify the program's financing gap and to seek donor support to fill it. This is Yemen's first PIP and its preparation involved a major effort by ministries and agencies, in particular the Ministry of Planning and International Cooperation.

**We commend the Government, and especially the Ministry of Planning, on the considerable effort that went into the preparation of the PIP.** The program is comprehensive, includes project briefs for all new projects, many incorporating the results of feasibility studies, and presents details on sector development strategies and on the selection criteria used.

**The present PIP could be strengthened in several respects following this donor meeting.** We therefore suggest that this version of the PIP be considered a working document, to be adjusted and refined over the next six months, when the financial outlook, both domestic and external, for public investment should be clearer. During this process of PIP revision, we suggest that particular attention be paid to the following three key aspects of the program:

**First, when reviewing the composition of the PIP, it might help to tighten the criteria used for the selection of projects.** As one of the annexes to the PIP details, a large number of both general and sector-specific criteria have been used in the selection process. We suggest that the potential for job creation and poverty reduction should be the overriding criteria for project selection. Other general criteria need to be established, such as those reflecting the role of government in the economy, the economic merit and technical quality of the project, and implementation capacity of the responsible agency. The strategies and priorities set out in the

Plan should then guide the process of prioritizing among the projects that meet these criteria, both between and within sectors. It should be made clear which of the many current sectoral criteria are most important.

**Second, it is suggested that a better investment balance be achieved between infrastructure and other priority areas identified in the Plan.** At present, the composition of the PIP heavily favors the development of infrastructure which accounts for nearly half of the cost of the program. While there is clearly a need to improve the road network and other infrastructure, more attention could be paid to removing other constraints on growth and poverty alleviation. These include high rate of population growth, weak governance, and weak public administration. These are areas where also donor support is especially needed.

**Third, it is suggested that the size of the PIP be reviewed to take into account future claims on the state budget to cover recurrent expenditures.** Domestic budgetary resources will need to contribute both to the investment cost of projects and pay for many of the claims on the budget arising from operation and maintenance costs of the new projects. Estimates of the need for government funds to cover both kinds of expenditures have been prepared by the various agencies for the projects under their responsibility, but without a clear indication on whether state budget will be available to meet these claims. In the absence of details on the medium term outlook for the budget, this is indeed hard to assess, but the broad projections in the Plan are not encouraging.

**While the Plan shows public investment as a share of GDP rising by a third, with 40 percent of it to come from the government's own resources, government revenue as a percentage of GDP is projected to decline.** Within the overall budget, this will put strong pressure on the Government to reduce current expenditure, in particular the relatively large wage bill and diesel subsidy. While the PIP recognizes the need to pay for the O&M costs of projects once they are completed, and includes estimates of it in the individual project briefs, there is no reliable assessment of the overall implications for the budget. This underlines the importance of completing the preparation of a medium term budget framework without delay, and of close collaboration between MOPIC and MOF in the process of revising and finalizing the PIP over the next few months.

### **The External Financing Requirements**

Allow me to say a few words about the external financing requirements of Yemen. This is usually estimated through the projection of the balance-of-payments. Unfortunately, this exercise has not been done. Instead, the PIP provided a breakdown between domestic financing and external financing. Of the total amount of the four-year investment program (\$12.6 billion), **external funding is estimated by the government at \$7.0 billion (or 55 percent), of which \$1.5 billion is either committed by the donors or tentatively earmarked, thus leaving an unfunded gap of \$5.5 billion.**

**The size of the foreign exchange requirements as well as the financing gap is based on several key assumptions,** notably a high GDP growth rate of over 7 percent and an improved absorptive capacity. The government is aware of these two challenges and is committed to implement the necessary reforms to promote growth and jobs and improve its absorptive

capacity. The recently completed Development Policy Review by the Bank, which projects a lower growth rate of 4-5 percent over the medium-term and investment to GDP ratio of 8-9 percent, does discuss in details the challenges facing Yemen.

### **World Bank Financial Support**

Let me now turn to the question of the World Bank's program of assistance for Yemen. **At present the Bank has 19 investment projects under implementation for a total amount of \$768 million, with \$484 million undisbursed (or nearly two-thirds.)** All key portfolio performance indicators such as disbursement ratios have significantly improved over the past two years. In FY06, the last long-term problem project (health Sector Reform Support) was restructured and upgraded and total disbursement ratio reached 26 percent, the highest in many years.

**The contribution of the World Bank to the financing of the proposed PIP is spelled out in the recently completed Country Assistance Strategy 2006-2009.** A total of 13 investment projects and programs amounting to around \$400 million in commitment, together with technical assistance and economic and sector work have been identified through a consultative process involving government, civil society and donors. These projects, together with the ongoing projects, cover four broad areas of the Plan: non-oil growth, human development, fiscal sustainability, and resource sustainability. Of particular importance is the proposed Institutional Reform Credit (IRC)--a fast disbursing credit of US \$ 50 million—which focuses on institutional reform. This IRC could become a precursor to possible development policy lending in the coming years.

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**In conclusion, given the serious challenges facing Yemen, a considerable investment effort, in the public and private sector, is needed to achieve the objectives of the Plan, namely poverty reduction.** Donors are encouraged to support the Government's public investment program by confirming their existing pledges and by increasing their assistance towards filling the financing gap. On the other hand, government is encouraged to institutionalize the PIP and make it a rolling annual program. The government is also encouraged to improve its capacity of implementation through a continued effort of reform

Thank you very much.  
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