

# **‘Public Investment Priorities & Financing Needs of the Republic of Yemen’**

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Ms. Chairperson, Excellencies, Esteemed partners, Ladies and Gentlemen...

It is my pleasure to have the opportunity to open proceedings on the second day of this landmark event for Yemen. Yesterday, we covered a lot of ground with a comprehensive and significant statement by H.E. Ali Abdullah Saleh President of the Republic, as well as other statements by several partners, followed by presentations and detailed discussions in 4 Working Sessions.

Now, we come to the core business of Yemen's investment priorities and our partners' much needed commitments. I should –first- acknowledge pledges made yesterday by representatives of each of The Kingdom of Saudi Arabia, State of Qatar, the United Arab Emirates, Sultanate of Oman, in addition to the Arab Fund for Socio-economic Development and the Islamic Development Bank. Their generous contributions will definitely assist in moving closer to achieving Yemen's development goals.

Preparation of the PIP was very much affected by the contradictory effects of resource constraints on the one hand, and development priorities and needs on the other. The MDG Needs Assessment report of 2005 estimated the level of *investment* necessary for the achievement of the MDG's at around \$5 billion a year, over ten years.

So it has been clear that we have to do something, especially in the context of declining oil resources.

We have to scale up investments and aid..., improve planning and management..., reform and restructure on several governance and economic levels..., decentralise and mobilise national capacities..., strengthen our development partnerships and regional integration..., and learn to improvise strategically and intelligently...

The results of this learning and growth process are before your eyes here today. We have a coherent national policy document: the newly completed National 5-Year Development Plan for Poverty Reduction and its investment plan: the Public Investment Programme.

The macro goals of the Plan are by now familiar to all: an average 7.1% annual GDP growth; reduction of unemployment to 12%, and curtailing poverty to 20% by 2010.

The Plan is based on comprehensive economic and governance reforms. Priority is accorded to developing human resource development, improving the investment climate, investing in promising sectors, private sector development, better infrastructure and basic social services, and bolstering the social safety net and protection.

The PIP was developed through a process of prioritisation based on the most urgent and strategic needs identified in the new Plan. Due to the uncertainties I mentioned earlier, we have had to keep it as a ‘Working Document’, which can be finalised on the basis of what follows here today.

We, however, believe that the PIP as is today, represents a practical and pragmatic middle ground between needs, potentially available resources, and absorptive or implementation capacities.

Out of 185 *new* projects submitted, 85 were selected for inclusion in the PIP. Taking into account existing projects with assured funding, the overall investment budget in the Plan and the PIP are roughly equal to \$13 billion over 2007-2010.

The criteria for project selection were guided by:

1. Fair distribution of resources among sectors & regions, and also based on poverty levels
2. capacities of implementing agencies, and
3. economic efficiency measures such as rates of return
4. job creation potential
5. improvements to basic services and infrastructure

Further prioritisation of PIP projects was based on sources of financing, existence of feasibility studies, and potential impact on development, particularly in rural areas.

We therefore arrived at 2 main groups of projects: the ones with no financing gap, comprising 34% of projects; and the ones with a financing gap, comprising 66% of projects.

The projects are further categorised into 6 major groups or sectors, and several sub-sectors. The bulk of the projects requiring additional funding relate to infrastructure and human resources development. Together they account for 69% of this group, with 49% of projects related to infrastructure.

In addition, projects related to developing productive sectors, good governance and public health have been prioritised.

Rather importantly, 74 of the 85 projects included have completed feasibility studies, and are ready to launch. The PIP, therefore, is based on realistic and well-designed projects, directly linked to the Plan.

It is the first of its kind in Yemen.

There are four sources of financing foreseen for the PIP: the national budget; ODA; project agencies; and local borrowing. The Government is expecting to fully or partially finance about 40% of planned investments over 2007-2010. Another 11% of the funding for this period is expected from existing donor commitments.

The Plan needs \$7.8 billion dollars of external funding. Of this, \$1 billion has already been programmed by our donor partners – leaving a \$6.8 billion financing gap that we hope to attract support for, where \$5.5 billion is needed for the period 2007-10, and another \$1.3 billion for the period beyond in order to complete projects launched during the Plan period.

We are aware that many of our partners are concerned with the issue of aid absorptive capacity. But we are also aware of the fact that Yemen consistently receives substantially less aid per capita than other countries in similar development situation. In per capita aid to GNI ratio terms, we receive 12% of the average for all least developed countries.

We also know that a good portion of Yemen's aid – around 40 to 50% - has been directed into large joint projects such as the SFD and PWP that have performed outstandingly by international standards. In fact, they suffer from under-funding rather than any delivery or absorptive deficiencies.

The Government and our partners are fully aware of indebtedness risks too. For this reason, there is consensus on the need for grants rather than loans, as the preferred modality.

We have also been engaged with our partners on preferred project implementation modalities. The Government has adopted a flexible approach to this issue in order to be responsive to our partners. Moreover, we have been closely engaged with our partners in the implementation of the Paris Declaration on Aid Effectiveness with specific measures such as the development of a national aid policy.

Yemen has also intensified its fiduciary and anti-corruption measures. The new Plan aims to raise the national anti-corruption index.

It is against this background that we feel confident of our partners' understanding and agreement with our stated development needs and goals. Elsewhere, the case for the need for Yemen's greater participation in the regional and global markets has been stated. All partners are aware of our plans to accede to the GCC and the WTO.

The PIP is central to our efforts to become a country of 'medium human development'. It is also the lifeblood for implementing the National Reform Agenda.

Following this CG, the Government will revise the PIP to reflect a realistic outlook for future levels of ODA by June 2007. The finalised PIP will focus on overcoming Yemen's priority development challenges, and be in line with the medium term outlook for the budget.

I would like to end with a special note of thanks to all our partners who are here with a view to support Yemen.