

REPUBLIC OF YEMEN

**The Interim Poverty Reduction Strategy Paper
(IPRSP)**

SANA'A

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The Government of Yemen is committed to designing public policy to address the underlying causes of poverty and alleviating its effects. This document summarizes the Government's commitment to this objective. It briefly summarizes recent economic developments, provides an indication of the nature and causes of poverty, outlines elements of Yemen's macroeconomic and sectoral framework, and identifies some of the strategic elements that may be key to Yemen's poverty reduction strategy. Further, this document discusses the mechanisms in place for preparing the Poverty Reduction Strategy Paper (PRSP), including a discussion of how this exercise fits into on-going national initiatives and the type of participative processes to be used.

Background

The Republic of Yemen's First Five-Year Plan (FFYP) for the years 1996 to 2000 highlighted Government's social development priorities. The overall objective of the plan was to generate and distribute economic and social development opportunities among governorates in order to reduce the current wide disparities. It aimed for a more pragmatic and development approach to dealing with poverty.

The FFYP coincided with the adoption of a comprehensive economic, financial and administrative reform program (EFARP), which has been implemented by the Government since early 1995 with the support of the World Bank and the IMF as well as the assistance of a broad range of international donors. The FFYP and the EFARP were not always compatible, and as a result the FFYP was not fully implemented. Public perceptions in Yemen were not always sympathetic to parts of the EFARP – such as fiscal restraint – and it was blamed for constraining the economic and social development process. However, positive impacts on the Yemeni Economy resulted from EFARP such as reducing the budget deficit to less than 3% of GDP during the period 1995-99 despite wide ranging fluctuations in world oil prices, curbing inflation to below the 10% rate, and achieving considerable improvement in the current account, thus reflected positively on the stability of the exchange rate.

In addition to correcting the macro-financial imbalances, the social safety net was also strengthened. Further, policies and measures were adopted to counteract poverty, through ongoing efforts to reduce poverty in the long-term (primarily by means of achieving high economic growth) and measures intended to mitigate the short-term adverse impact of the EFARP on the poor and other vulnerable groups. On the administrative reform side, the Government also gave explicit attention to improving the delivery of public services in order to accelerate growth and alleviate poverty. Measures to improve the delivery of public services are grouped into four categories: (i) strengthening public administration; (ii) budget and financial management reform; (iii) public expenditure rationalization; and (iv) revenue mobilization.

The success of the stabilization policies was expected to be followed by similar success in the restructuring phase. This, however, has not yet materialized in full form since real growth in GDP over the same period was modest and could not exceed 5%. Consequently employment was stagnant and the unemployment rate surpassed 20%.¹

The impact of economic changes on the poverty indicators was mixed. The success in controlling inflation reflected positively on these indicators as it resulted in preserving real incomes and safeguarded the livelihood of low-income groups. Nonetheless, the humble economic growth failed to improve poverty indicators and per capita GDP remained low at around \$ 300, which is also true for per capita consumption. Thus, there is much to be done for alleviating poverty in Yemen. Foremost is the need for an accelerated growth process, particularly in sectors that serve the poor by creating job opportunities and enhancing the delivery of essential services.

Poverty Profile

Initial analysis of the 1998 Household Budget Survey indicates that poverty in Yemen almost doubled between 1992 and 1998, with the number of households below the “food poverty line” rising from 9% to 17%. By factoring food, clothes, housing, education, health and transport into an “upper poverty line”, the percentage of households living in poverty rose from 19% to 33% over the same period. Hence, poverty is becoming more widespread amongst the 18 million people who live in Yemen’s urban and rural areas. Also, social indicators reflect very low human development marked by a consistent pattern of wide gender disparities. For example, 44% of males and 72% of females are illiterate. The situation of health is equally inadequate, where only 55% of the population has access to health services.

The 1998 Household Budget Survey highlighted the following characteristics of the poor:

- Household size (6.8 members on average) shows a strong positive correlation with poverty prevalence.
- The proportion of poor households who are inactive amounts to 16.3%, which is high compared to other Arab Countries.
- Poverty is higher in rural areas; a rural household is at 50% higher risk of being poor.
- Female-headed households are more likely to be poor than male-headed household. A female-headed household implies a higher risk of being poor by about 20%.
- Poor people are more likely to be employees or working within a family activity compared to the non-poor who happen to be either employers or self-employed.
- Family ties, kinship relations, and societal links are strong, and are seen as important elements of the social safety net.

¹ A Labor Survey has recently been conducted, and preliminary results show a wide range of unemployment estimates depending on the definitions used. When the survey is more completely analyzed, this figure could be substantially revised.

Determinants of poverty

Poverty is not the outcome of the economic process alone, rather it is the result of economic, social, and cultural factors that interact to either alleviate or deepen the severity of the phenomenon. The major underlying causes of poverty in Yemen can be seen in:

- ***Population Dynamics:*** The population growth in Yemen is among the highest in the world and the total fertility rate (6.5 children per woman) is more than double the world average. Thus, population doubles every 19 years. Also, more than half the population is less than 15 years of age leading to a high dependency ratio. Also, about 76% of the population live in rural areas, of which 80% reside in communities of less than 500 people, hence making it very difficult and costly to provide essential services.
- ***Scarcity of Cultivable Land:*** While the total land area of Yemen is estimated at 555,000 square kilometers (excluding the Empty Quarter), there is limited land for agriculture production, with only 1.6 million hectares (2.9% of total area) of cultivable land, and 2 million hectares of marginal land (3.7% of the total area).
- ***Scarcity of Water:*** The country's most dependable source of fresh water is the net precipitation. Per capita water supply is about 2% of the world average and 85% below the amount needed for domestic use. Although agriculture depends mostly on rainfall, ground water has reached a state of over-exploitation as a result of over drilling stimulated by diesel subsidies. The exhaustion of groundwater will similarly affect the major cities, including the capital Sana'a.
- ***Insufficient Infrastructure:*** Less than 10% of the road network is paved, the network does not reach a large proportion of the population, and most of it is in poor conditions. Moreover, electricity from the public grid reaches only about 35% of the population, only about 40% of the population have access to safe drinking water, and telecommunications penetration is still very low outside major cities.
- ***Inefficient Civil Service:*** The over-centralized nature of governance and public administration has resulted in the marginalization of regional authorities and led to the underdevelopment of their capacity to plan and implement social and economic development. Moreover, absence of accountability and transparency created an environment that is non-conducive to private sector's investment.
- ***The Returnees and Refugees:*** The influx of Yemenis returning from the Gulf countries especially after the advent of the Second Gulf Crisis in 1990-91 as well as refugees fleeing war and unrest in the neighboring African countries throughout the 1990s has created additional burden on the economy. The majority of the returnees were unable to bring back their assets and hence were impoverished. And many of them have not been able to reintegrate in the society. Also, this influx created a large demand for housing and infrastructure, education and health services, and employment opportunities.
- ***Gender Perspective:*** Gender-based inequalities, reflected in women's low level of participation as compared to men in such key areas as labor markets, education systems, decision-making structures as well as in exercising their reproductive health

choices and legal rights, is increasingly recognized as an important issue for achieving sustainable economic development.

- ***Qat Related Issues:*** Qat is a highly complex social and economic issue. Although qat is a major source of rural income, qat plantation consumes between 50-60% of water used for irrigation, which aggravates the water problem. Moreover, pesticide abuse associated with expansion in qat plantation has been increasing tremendously during the last few years with its adverse effect on the environment.

Macro and Sectoral Economic Framework

To preserve achievements realized by the stabilization program it is imperative that the Government continues to implement the fiscal, monetary, and trade policies which maintained a low deficit and a competitive effective exchange rate. The macroeconomic framework derived from Yemen's policy stance is summarized in Annex 1. It highlights the aim of boosting the growth process through speeding up the implementation of the restructuring policies. Many of the positive results of the stabilization and restructuring policies are to reap fruits in the near future in view of the gestation period associated with some of these policies. Hence, the modest improvement of some indicators, or even any setback, should by no means lead to disruption of the program.

Within this context, the government is to continue applying structural reforms (Annex 2), and at a high momentum, so as to realize positive outcomes in the near future. Over the period 2000 to 2005 the non-oil economy is expected to grow at an average annual rate exceeding 5.5%,² which needs to be increased in order to be able to reduce unemployment and to improve the conditions of the poor. Efforts are also focusing on the vulnerability of the economy to world oil prices, and the need for diversification of the economy and revenues. Accordingly, over this period emphasis will be given to the following policies:

Macro Policies

1) Fiscal Policy

- Continue to apply strict fiscal policy. The aim is to (i) accumulate a small fiscal surplus so that when oil revenues fall in the medium term (due to lower world prices and diminishing reserves), the government has savings to maintain expenditures, particularly on basic social sectors, and (ii) ensure economic stability as a basic condition for increasing growth and improving poverty indicators.
- Review and reconsider the structure of public expenditure in order to increase spending on social services and particularly education and health. Public investment in infrastructure (roads, electricity and water, extension services) would provide favorable conditions for growth, with the need to focus on rural areas in which the majority of the poor live.

² This number comes from the medium term framework – non-oil was used rather than oil since this is where employment is being generated.

- Improve efficiency of public expenditure through simplifying procedures and enhancing monitoring. Such steps will, undoubtedly, result in rationalizing spending and improving quality of public service, which again reflect positively on growth and on poverty indicators.
- Reform the tax and customs systems as well as their respective administrations in order to ensure full collection of revenues. While these reforms should encourage local production and exports alike, exemptions outside the domain of the Investment Law are to be curtailed.
- Modernize and support the social safety net by increasing allocations to the various programs in this field. Further, attention will be given to reform of the pension funds so that: (i) they provide adequate retirement income in a fiscally sustainable manner; and (ii) they better serve as a vehicle to increase national savings.
- Restrain current expenditure and in particular allocations for salaries and wages. The civil service reform will control and supervise the number of public servants and would enable the government to reduce the wage bill on the one hand and increase real wages on the other hand.

2) Monetary Policy

- Continue the policy of floating exchange rate, which should ensure a competitive real exchange rate to encourage non-oil exports. The Government shall also take measures to liberalize interest rates in order to encourage domestic savings and increase capital inflow.
- Control money supply growth, prevent deficit financing, and promote Treasury Bills, while caution should be taken not to be involved in competition with the private sector in financing investments.
- Reform the banking system to improve financial intermediary and consequently raise the saving and investment rates as well as minimize risks confronting the savers and investors alike. Reforming saving and investment channels will help improve the conditions of the poor by encouraging them to save and thereafter to be able to contribute in investing.
- Establish a stock market that mobilizes local and foreign savings for investing.

3) External Sector

- Continue implementing trade liberalization policies through revising custom tariffs to encourage exports and ultimately attract more foreign investments.
- Seek accession to the World Trade Organization (WTO).
- Seek further external debt rescheduling through Paris Club, bilateral negotiations with the other creditors to reach similar debt settlements, and successful completion of the commercial debt buyback operation supported by a World Bank facility.

Sectoral Policies

Yemen has great endowments that offer hope and support to the country's development process. *Yemen's location* along the major sea route between Asia and Europe can once again – with the right policies – make Aden one of the busiest ports in the whole world as well as attract foreign investments to the country. *Oil revenues* – even with limited reserves – can help build a competent state, good education and health systems, and a modern physical infrastructure capable of supporting a diversified economy. Moreover, *gas* has good growth potential. Also, Yemenis have been oriented to international trade, and this *trading culture* affords Yemen a wealth of potential foreign trade and investment links especially with Yemeni emigrants world wide. Yemen also offers unique architecture from antiquity, spectacular mountains, remains of ancient kingdoms such as Sheiba, as well as other attractions that could generate substantial *tourism activities and revenues*.

- Potential sectors that could lead economic growth include small and medium scale industries (garments, handicrafts, etc.), tourism, and aspects of fishing and agriculture. In this context government policies will aim at creating an environment conducive to private sector investment, correcting market distortions, and exploiting externalities in sectors which are promising.
- In services, education and health are priority sectors in terms of allocating public expenditure. Both sectors are most important for growth and for poverty alleviation. In education emphasis will be laid on basic education and vocational and technical training, especially among females and in rural areas. In health, preventive health and combating epidemic diseases are the major concern.
- In addition, basic infrastructure needs to be improved and in particular electricity, water, sanitation and roads.

Institutional Reform Policies

No economic development can be achieved without modernizing government administration. Hence, institutional reforms are a key part of Yemen's reform program. In 1998, a public sector modernization strategy was discussed and further developed at a national conference and later endorsed by the cabinet. This strategy envisions a public sector that efficiently and effectively provides key government services, that encourages and supports private and non-governmental sector, that operates with transparency, and where performance criteria and merit principles are applied. Institutional reforms are also on-going in areas that are key to strengthening the environment for investment and private sector growth, such as the judiciary.

- Accelerate the civil reform program in order to finalize the job specification process and solve the surplus labor and double dippers issues. Measures will be also taken to enhance efficiency and improve monitoring and transparency.
- Improve security and judiciary services in view of their importance to attract investments.
- Implement local governance, while preserving fiscal discipline, which would support the civil service reform and broaden participation and monitoring. Expanding peoples

participation leads to mobilizing public as well as official efforts. It also provides further incentives for the realization of economic development and a conducive environment to alleviate poverty, especially in remote areas.

- Continue to support private initiatives to increase the role of the private sector in the economic development process through reconsidering and amending the Investment Law as well as other related legislation.
- Accelerate the privatization of public enterprises in order to improve efficiency and attract modern technology and foreign investments. In this respect, due attention will be paid to the negative consequences of privatization represented in its temporary impact on labor.
- Continue efforts to increase the transparency of the public budgeting process and the accountability for public funds. Over the past few years, there has been substantial progress in this area including the unification of the budget process, revision of the budget classification system to meet international norms, revisions of the budget manual, and development of a data base on public investments. Further actions are planned including computerization of the government's accounting and financial and management information system. All of this has helped the move to greater transparency and accountability.

Poverty Reduction Strategy and Policies

There is a general consensus that tackling the challenge of poverty in Yemen is particularly urgent, as the imbalance between the demographic trend, the declining natural resource base and the underdeveloped economic structure of the country have created a process which generates poverty and deprivation instead of jobs and livelihood. Thus, the broad concept of poverty demands an all-encompassing policy framework and strategy content, which would enable the government to secure sound social safety nets, empower the poor, increase opportunities that generate employment, and provide better access to basic services.

However, while the EFARP has been underway for the last five years, the lack of a well-coordinated mechanism made it difficult to integrate social and economic imperatives, and to pull multiple actors towards clearly defined national goals and targets. In addition, to efforts at the micro and mezzo level, income and employment generation activities need to be also driven by higher investment in key sectors, backed by the requisite technical education and vocational training in order to set the country on the path to economic growth and prosperity, without which the majority of Yemen's people will remain unable to meet their needs nor their aspirations.

Furthermore, the modest achievements on the growth front have raised questions on the design and implementation of the EFARP. Was the set of policy mix appropriate or do these policies need to be restructured? What additional policies and/or institutional reforms need to be put in place to bring about the required growth? Strategically, it is believed that poverty alleviation can be resolved in due course by means of sustained economic growth, on the one hand, and investing in social development, on the other. The task of economic growth should be entrusted essentially to the private sector,

supported by the State through the provision of physical and institutional infrastructure. With respect to social development, the task will rest largely with the State, as the Government of Yemen has expressed its intention to expand its role in the field of social development, committing itself to stepping up and improving public services in the field of education, health care and labor training.

Therefore, there is a need for a Poverty Reduction Strategy (PRS), which explicitly incorporates a set of inter-related policies and activities designed to achieve time bound objectives. The PRS will aim at creating an enabling environment for poverty alleviation by assisting the Government in formulating and implementing appropriate policies and initiating feasible pro-poor activities. Moreover, the measures and policies for poverty alleviation to be pursued, should consider the need for synchronizing the implementation of the EFARP with the necessary social adjustment measures in the form of social development and poverty alleviation initiatives that envisage a longer term period to ensure the sustainability of the earlier results.

A strategy for reducing poverty in Yemen needs to be sustainable and to set goals, actions, and intervention measures built on three principle macro objectives, which are:

- Create income-generating opportunities and expand economic opportunities for the poor.
- Enhance the capabilities of the poor and increase the return on their assets.
- Reduce the suffering and vulnerability of the poor.

Furthermore, policies addressing poverty must move simultaneously on a broad front in order to meet the Government's goal of reducing absolute poverty. Some of these policy fronts include:

- Enhance the social safety net to relieve the suffering of the ultra poor.
- Improve the social conditions and economic productivity of the poor and of those close to the poverty line.
- Address and combat the structural causes of poverty by focusing on poverty prevention and sustainable livelihood.

Yemen's full PRS will further develop specific monitorable goals, in order to assist in tracking the progress and success of public policies and programs on achieving growth, poverty reduction, and service delivery targets.

Strategy Elements:

The strategic elements outlined below are recommended in their totality. They constitute a synergistic bundle out of which a suitable mix of policy initiatives can be assembled.

- 1) ***Expand and enhance the development approach.*** While the Government remains committed to the reform process, the modest achievements on the growth front have raised questions on Yemen's development approach. Thus, to maintain productive competition there is a need to enhance further eliminating monopolies in the domestic market and opening up vis-a-vis international markets. All protective

measures that obstruct effective competition, except those for Social Safety, need to be eliminated. An efficient civil service and an effective and fair system of justice are prerequisites for any development model that aims at creating a stable and conducive environment for private investments.

- 2) ***Develop potential economic sectors.*** More jobs and income can be generated and in particular in agriculture and fisheries where new growth opportunities would be identified and prioritized. Small and micro-enterprise in general represent a promising path for poverty reduction and sustainable livelihood. Moreover, to exploit its cultural heritage and generate substantial tourism-related income, Yemen needs to prepare and upgrade its infrastructure and services.
- 3) ***Mitigate the adverse effects on the poor of the Structural Adjustment Program.*** People unable to undertake productive employment need to be protected through a social safety net with effective targeting and sound transfer. The Social Welfare Fund (SWF) provides cash transfers to households with very low incomes (the very poor). A minimum level of health care is to be provided free of charge to the poor. Enrolment in basic education is to be universal.
- 4) ***Reduce population growth.*** More attention and effort are to be given to implement the population strategy in order to reduce population growth, which is among the highest in the world (3.5%).
- 5) ***Enhance human and capital assets of the poor.*** Public investment in human capital and providing access to productive assets are effective strategic tools to protect households from chronic poverty. Education, training, technology transfer, and health services are prerequisites to the improvement of the well being of the poor. Improvement in productivity needs to be given much attention so that real wages could increase.
- 6) ***Expand economic opportunities for the poor in the agriculture sector and in rural areas.*** This will also assist in addressing food security issues. Accelerating growth in the regions and localities, however, needs effective policies and measures at the local level, which should be in line with regional development and labor-intensive modes of production that are very much suited to the development model for Yemen. Moreover, women in rural areas have the primary responsibility for food production and therefore require specific policy and program support to increase their productivity in growing crops and raising livestock.
- 7) ***Improve social security and pension schemes.*** The existing social security scheme and the social insurance scheme require fundamental reform in order to have greater impact on poverty reduction.
- 8) ***Improve and upgrade infrastructure*** in order to raise productivity, promote investments, break isolation of rural areas, and expand markets and job opportunities, along with improving human development.
- 9) ***Rationalize water use.*** The problem of water scarcity requires a coordinated approach that combines regulations, elimination of diesel subsidies, water use developed methods, recycling, conservation, proper sanitation, awareness campaigns, as well as redirect use of water from qat to other uses.

- 10) ***Combat desertification and environment degradation*** according to the desertification and environment strategies prepared and adopted by the Government.
- 11) ***Support measures that address issues limiting women's access to economic opportunities*** and resources, capacity building and social security programs.
- 12) ***Review and amend legislation*** to ensure consistency with the poverty reduction strategy and policies, with special emphasis that legislation can and will be implemented.
- 13) ***Citizens' participation and involvement of civil society institutions.*** Many actors are to be involved in the preparation of the PRSP. These are the government (various government agencies), civil society institutions and the private sector, in addition to multilateral and bilateral donors. Altogether have to participate in the formulation of strategy as well as in its implementation.
- 14) ***Establish an effective information, follow up and monitoring system*** for the careful monitoring of the implementation of the PRS through identified indicators and rapid poverty assessment techniques. In addition to other indicators to be defined, the composite gender development index may assist in monitoring and evaluation activities designed to follow implementation of the poverty reduction strategy and programs.
- 15) ***International cooperation and donor assistance.*** Although improving the trade balance, increasing foreign investment, and increasing labor emigration would have positive impact on poverty reduction, at the same time debt relief and increased foreign assistance directed to poverty reduction will have greater effect on declining poverty incidence. Adopting the UN's 20/20 initiative³ in this regard is an appropriate approach to attract foreign assistance.

Developing a Poverty Reduction Strategy Paper (Consultation Process)

The exercise of developing a Poverty Reduction Strategy Paper (PRSP) – in its timing, modality and content – comes at a time when the Government is in the process of preparing its Second Five-Year Plan (SFYP). The SFYP for economic and social development, covering the period 2001-2005, has an overall objective centered on generating economic growth, creating employment opportunities, and ensuring economic and social stability. Development of the PRSP is being mainstreamed into the process of preparing the SFYP so that the PRSP becomes part and parcel of the plan's strategies and objectives. The aim is to ensure that the PRSP is consistent with the Government's SFYP. Furthermore, and for similar reasons, other related initiatives, such as the UNDP supported program for developing a national action plan for poverty eradication, will also be integrated into this coherent approach.

As an early step in the process of preparing the SFYP, a discussion paper was prepared on the strategic outlook, or vision, for Yemen to the year 2025. This vision is being used to help define the policies and programs needed to achieve national aspirations. With a view towards enabling all the different groups of society to participate in the

³ An initiative calling for 20 percent of public expenditures and 20 percent of donor assistance to be directed to basic social services.

development of this strategic outlook, seminars to discuss the draft paper were held in four governorates.⁴ These one-day seminars, which were attended by government officials, civic leaders, labor unions, NGOs, interest groups such as women organizations, professional syndicates, academia, political groups, the media, and the private sector, took place between the end of June and the end of October. Following this, a larger three-day congregation was organized in cooperation with the Consultative Council with participation of a diverse group of concerned parties. Two more seminars are scheduled in February 2001. After consideration of the comments and suggestions made by seminar participants, a semi-final vision paper was drafted by the end of November. In tandem, a general framework including macroeconomic and sectoral policies was prepared, and to be finalized by mid February 2001 that should be consistent with the Strategic Outlook.

Sectoral plans, with underlying objectives of creating a foundation for accelerated private sector growth and job creation, enhanced delivery of essential services to the population, and reducing the incidence of economic and social vulnerability and poverty, have been developed by ministerial committees and approved by the SFYP's Supreme Committee. Input into these plans included sectoral studies prepared by national consultants, information collected at the governorate level, and an evaluation of the lessons learned during the FFYP. Further, the sectoral plans drew on and are consistent with the shared strategic outlook for the year 2025 and overall general framework that were discussed above. Strategic investments for the SFYP are defined in light of these plans.

Complementing these activities, the initial interim PRSP was also presented and discussed in the four regional workshops and the national congregation discussed above. In this context, a participative poverty assessment seen as a key element of the participation process and a way to elicit the opinions of the poor themselves in a manner that is more systematic and scientific than through workshops, was undertaken in three regions of poverty concentration.

Moving forward, the SFYP is expected to be completed and finalized by end of March 2001. Following this, work will focus on further developing the mechanisms and tools for monitoring and evaluating the poverty Reduction Strategy and other poverty programs embedded in the SFYP.

On the organizational side, in order to carry out the above activities related to the development of the SFYP and the resultant PRSP, a number of steering and technical committees have been established. A diagram summarizing the preparation of the SFYP, how the PRSP and other initiatives fit into this process, and the organizational set-up is presented in Annex 3.

While the PRSP is intimately linked to the preparation of the SFYP, and because of the specific external conditionality by the IMF and the World Bank to prepare the PRSP, specific arrangements have been made to oversee and coordinate its preparation. The Government formed: (i) a ministerial committee presided over by the Minister of Finance with membership of both Ministers of Planning and Development and of Insurance and

⁴ Participation from the other 14 governorates will be ensured by attending seminars in the closest governorate.

Social Affairs to oversee the preparation of the PRSP, and (ii) a technical committee with representation from the relevant line ministries entrusted with the preparation of the PRSP under the supervision of the Minister of Planning and Development. Members of the PRSP technical group also participate in SFYP technical groups. A core team is responsible for: (i) acting as an advisory group to ensure that that SFYP incorporates the poverty and participation focus required by the PRSP; and (ii) drafting the PRSP on the basis of the SFYP. Further, they are responsible for identifying areas where additional analytical inputs are required, and seeing that any additional work required by the PRSP (and that is not included in the SFYP) is addressed.

In summary, the overall objectives in preparing the PRSP are (i) to ensure its full consistency with the SFYP, and (ii) to promote participation of all relevant government agencies and community based civil society associations as well as international partners in order to bring them together towards clearly defined national goals and targets. Furthermore, parliamentarians are to be involved in the preparation of the strategy right from the beginning through holding debates within parliament's specialized committees, while the Consultative Council can act as a forum to wrap up all views and considerations. Consultations with various stakeholders in Sana'a and in the governorates will take place through workshops, and media programs will be used to spread awareness regarding the poverty strategy, programs and policies.

As described above, the general work program for preparation of the PRSP is closely linked to on-going work for the SFYP. A timetable with some of the key steps is summarized below. This IPRSP, which was originally submitted in June 2000, has been updated to reflect the participatory activity that has taken place and the revised macroeconomic framework. Nevertheless, it does not reflect the additional substantial technical work still underway that will be incorporated in the PRSP.

Timetable: Preparation of the PRSP and the Second Five-Year Plan

Mar 7, 2000	Appoint a ministerial committee and a core team responsible for preparing a PRS and in ensuring its integration into the five-year plan process.
Mar 31, 2000	Draft copy for the Interim PRSP submitted to the Cabinet.
May 15, 00 – Sep 30, 2000	Preparation of background analysis and position papers.
Jun 15, 2000	Interim PRSP finalized and sent to the IMF and World Bank.
Jun 26, 00 – Jul 31, 2000	Workshops on Strategic Outlook.
Aug 31, 2000	Completion of Comprehensive Framework for the SFYP.
Sep 11, 00 – Oct 23, 2000	Seminars on Poverty Alleviation.
Sep 4, 00 – Oct 30, 2000	Discussions on Sectoral Plans.
Oct 1, 00 – Nov 30, 2000	Additional participatory outreach to parliamentarians and other groups to receive feedback on the background analysis and position papers.
Dec. 2000	Resubmission of the IPRSP with an updated macroeconomic framework and time table
Jan, 31, 2001	Completion of Strategic Vision 2025.
Jan. 31, 2001	Finalization of draft SFYP.
July 1, 2001 – Sep. 30, 2001	Drafting and finalization of the PRSP.

Monitoring

Despite some progress, statistical data remains limited and inadequate. This is particularly true for information pertaining to poverty and unemployment. The available data was by no means adequate for undertaking poverty assessment let alone for the purpose of policy formulation, implementation and impact monitoring. However, the more recent attempt to estimate poverty and to measure the extent of poverty with specific focus on living standards in Yemen was carried out through the 1998 Household Budget Survey. Furthermore, a Poverty Information and Monitoring System unit has been established at the Central Statistics Organization (CSO) as one component of the UNDP Poverty Alleviation and Employment Generation Programme, with the objective of carrying out frequent surveys that help the continuous monitoring of poverty. The regular publication of official reports monitoring poverty in Yemen, which began in 1998, is an indication of Government commitment to address the problem of data limitations. Results of a national poverty survey are to be published later this year and will be followed by rapid surveys to monitor changes in poverty indicators. The PRSP will further elaborate the type of indicators that will be used to monitor the implementation of the strategy, including information about both the existing indicators that can be used now as well as efforts that will be needed to enhance the data available for better monitoring.

Since the current situation limits the ability of Government to ensure that interventions feed into the national mainstream and to monitor impact at national level, the National Committee for Social Safety Net (NCSSN) chaired by the Prime Minister was established in June 1998 with the main responsibility of formulating pro-poor policies and ensuring

that relevant authorities implement them. This task requires facilitating, coordinating, following up, and evaluating all anti-poverty activities at the central as well as at the local levels through systematic mechanisms.

External Assistance

It is difficult to estimate how much resources have been allocated to fighting poverty in Yemen. This is partly because of lack of coordination between the many different line ministry budgets, mixed budgets in national and international programs, and the range of civil society activities.

Traditional external assistance focused on the social sectors, covering schools, non-formal education, food crops, livestock, forestry, fisheries, drinking water and sanitation, primary health, immunization campaigns, family planning, hospitals and clinics, refugees and returnees, and disaster relief.

However, since the Government will remain unable to finance the necessary antipoverty programs that would achieve the anticipated goals due to lack of domestic resources, it will request the generous donations and soft credit from multilateral and bilateral donors to finance projects in potential sectors as well as in social sectors. In addition to financial assistance, the Government will continue to seek technical assistance from abroad while assuring a better transfer of know-how to Yemeni counterparts. Continued partnership between the Government of Yemen and donors in particular the IMF and the World Bank is not only essential to carry out the remaining reforms (EFARP), but also and simultaneously to confront the expansion of poverty in Yemen during the coming ten years.

Annex 1: Medium Term Macroeconomic Framework*

	Estimates					Revised Projections			
	1997	1998	1999	2000	2001	2002	2003	2004	2005
	(Change in percent)								
Real GDP at market prices	8.1	5.3	3.8	6.5	2.4	3.3	3.9	4.7	5.3
Real non-oil GDP	8.2	5.9	3.2	3.8	4.6	5.3	5.9	6.5	7.0
Inflation (CPI)	4.6	11.5	8.0	10.9	9.0	7.0	6.0	5.0	5.0
Real per capita GDP at market prices	4.6	1.9	0.5	3.1	-0.6	0.3	1.0	1.9	2.5
	(In percent of GDP)								
National consumption	85.3	96.6	88.2	75.0	86.7	89.0	90.2	91.0	91.8
Government	15.8	17.2	16.9	15.3	17.3	17.0	16.9	16.8	16.8
Nongovernment (including public enterprises)	69.5	79.5	71.4	59.8	69.4	72.0	73.3	74.3	75.0
Gross investment	23.7	21.1	18.6	19.2	20.2	20.3	21.3	22.1	22.9
Change in stock	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross fixed capital formation	23.3	21.1	18.6	19.2	20.2	20.3	21.3	22.1	22.9
Government	6.8	6.1	5.6	5.4	6.3	6.3	6.5	6.6	6.8
Nongovernment (including public enterprises)	16.5	15.0	13.0	13.8	13.9	14.0	14.8	15.5	16.1
Domestic absorption	109.0	117.8	106.8	94.2	106.9	109.3	111.5	113.1	114.7
Net exports of goods and nonfactor services	-9.0	-17.8	-6.8	5.8	-6.9	-9.3	-11.5	-13.1	-14.7
Net factor income	-9.6	-5.7	-9.6	-11.4	-7.9	-6.7	-5.8	-5.4	-4.9
Net current transfers	19.0	19.9	19.2	16.0	16.7	16.3	16.2	16.3	16.2
Gross national savings	24.2	17.6	21.5	29.6	22.1	20.6	20.2	19.9	19.5
Government	4.9	-0.2	5.3	15.5	9.2	7.3	6.2	6.0	5.1
Government, excluding oil revenue	-17.2	-13.9	-14.5	-17.4	-16.3	-14.7	-12.8	-11.7	-11.2
Nongovernment (including public enterprises)	19.3	17.7	16.1	14.0	12.9	13.3	14.0	14.0	14.4
Total fiscal revenue and grants	32.8	26.4	31.8	43.4	36.9	33.5	30.9	29.7	28.7
Oil revenue (including domestic)	22.1	13.8	19.8	33.0	25.5	22.0	19.1	17.6	16.3
Non-oil revenue	10.1	12.2	11.1	9.6	10.8	11.0	11.3	11.5	11.8
Grants	0.6	0.4	0.9	0.8	0.6	0.6	0.6	0.5	0.5
Total fiscal expenditures	34.7	32.7	32.1	33.3	34.0	32.5	31.2	30.4	30.3
Current expenditure	27.9	26.6	26.5	27.9	27.7	26.2	24.7	23.8	23.5
Development expenditure	6.8	6.1	5.6	5.4	6.3	6.3	6.5	6.6	6.8
Overall fiscal balance (commitment basis excluding grants)	-2.5	-6.7	-1.2	9.4	2.3	0.4	-0.8	-1.2	-2.2
Overall fiscal balance (cash basis including grants)	-1.8	-7.9	-0.4	9.4	2.9	1.0	-0.3	-0.6	-1.7
Foreign financing (net)	0.3	1.2	2.3	1.0	0.3	0.3	0.0	-0.1	-0.6
Domestic financing (net)	1.5	6.7	-2.3	-11.3	-3.2	-1.3	0.3	0.7	2.2
External trade balance	-2.0	-11.5	0.4	11.5	-0.7	-3.0	-5.9	-7.7	-9.5
Exports, f.o.b.	34.5	23.8	36.1	46.7	37.4	32.6	29.3	27.3	25.4
Oil and gas	32.5	21.7	34.0	45.0	35.7	31.0	26.8	24.7	22.5
Non-oil	2.0	2.1	2.0	1.7	1.7	1.6	2.5	2.6	2.9
Imports	-36.5	-35.4	-35.7	-35.1	-38.2	-35.5	-35.2	-35.0	-34.9
Current account balance (including grants)	0.3	-3.7	2.9	10.0	1.2	0.3	-1.1	-2.2	-3.4
Memorandum items:									
Total budget social expenditures (in percent of GDP) 1/	5.8	8.8	9.3	9.2	10.7	10.9	11.3	11.3	11.4
Public sector debt (in percent of GDP)	107.2	121.3	104.6	68.7	68.8	65.4	63.9	62.2	61.3
Real per capita private consumption (1996=100)	111.1	110.6	110.6	105.9	112.0	113.6	114.7	118.3	122.3
Incremental capital output ratio (ICOR)	2.9	4.0	4.9	3.0	8.3	6.1	5.4	4.7	4.3
Gross official reserves (months of imports, fob)	5.3	4.2	6.0	10.0	10.7	11.0	9.9	9.5	8.7
External debt service ratio 2/	10.3	14.0	8.3	5.7	6.6	5.8	5.8	6.8	8.2
Oil export prices (US\$ per barrel)	18.5	11.6	18.7	28.1	22.2	20.7	19.3	19.0	18.8
Non-oil fiscal balance (commitment, excl. grants and crude oil exports)	-17.6	-15.2	-13.9	-12.7	-14.9	-13.2	-12.1	-11.1	-10.8

Sources: Yemeni authorities; and staff estimates and projections.

1/ Social expenditures include all spending on health, education, and social safety net.

2/ In percent of exports of goods and services, actual and projected after debt rescheduling.

*The macroeconomic framework will be revisited upon the finalization of the SFYP in order to ensure consistency with the Plan's growth pattern.

**Annex 2: Policies to Promote Growth and Reduce Poverty
2000–2002**

<i>Policy Area and Objective</i>	<i>Strategies and Measures</i>	<i>Measures</i>
MACROECONOMIC AND FINANCIAL POLICIES		
<i>Macroeconomic stability as basis for growth</i>		
Provide stable macroeconomic environment conducive to higher growth and to protect the poor through low inflation.	Increase public sector savings and maintain sustainable domestic and external balances.	Implement fiscal program aimed at saving part of the oil price windfall gain
<i>Tax policy reforms</i>		
Taxation: Broaden tax bases, improve governance, and compliance, and reduce incentive distortions, while minimizing adverse incidence on the poor.		Study incidence of taxation on the poor to prepare long-term tax reform strategy.
	Pursue consolidation of all income for tax purposes, and rationalization of rates, brackets, exemptions, deductions.	Prepare comprehensive new income tax law.
	Introduce General Sales Tax (GST) (to replace production tax) with basic rate of 10 percent, tax credit mechanism, zero rating for exports, extension to services and minimal exemptions (e.g., foodstuffs and basic utility services).	Establishment and staffing of GST development unit, decision on threshold, parliamentary approval and promulgation of GST law.
	Rationalize Investment Law tax exemptions, and ensure consistency with GST and other taxes.	Promulgation of revised Investment Law
	Establish large tax payer unit, and modernize assessment procedures (including self-assessment and efficient rules for settling disputes), and administration.	Establishment and staffing of large taxpayer unit.

<i>Expenditure reforms</i>		
Enhance expenditure efficiency and reallocate resources to priority areas consistent with growth and poverty alleviation objectives.		Undertake analysis of: <ul style="list-style-type: none"> <input type="checkbox"/> Incidence of public expenditures on the poor. <input type="checkbox"/> Public expenditure program in terms of its fit with growth and poverty alleviation. <input type="checkbox"/> Operations and maintenance requirements in key sectors.
	Prepare and implement budgets that are appropriate to achieve the government's objectives of growth and poverty reduction: (i) by giving adequate priority to key areas such as infrastructure, education, health, and social safety nets; and (ii) by appropriately aligning expenditures on operations and maintenance (O&M), wages and public investment.	
Development expenditures	Line ministries to analyze and prioritize projects as part of annual budget preparation within the budgetary envelope determined by the MOF.	Line ministries to prioritize projects in their submission for 2001 budget proposal.
Wage bill	Formulate medium-term wage policy consistent with civil service reform (i.e., decompressed wages and links to performance) and gradual reduction of wage bill as a percent of GDP.	Establish interministerial committee to formulate wage policy; develop work program for that committee and commence activities.
O&M	Augment O&M outlays in line with recommendations from existing and additional analytical work.	Implement agreed fiscal program for 2000.
Remove untargeted subsidies	Liberalize domestic petroleum product prices, except LPG and gradual reduction of diesel subsidies.	
Enhance cost recovery for utilities to facilitate service expansion	Adjustments in electricity, water, and wastewater tariffs and/or cost structures as needed to gradually provide for full cost recovery, including adequate provision for financial charges	Adjust utility charges to reduce utility deficits.
Improve incentives for public enterprise efficiency	Reduce transfers to public enterprises and entities	Limit transfers to YR 24.2 billion in 2000.
	Ensure that all financially important or transfer-receiving enterprises and entities submit financial balance sheets and operating statements to MOF on a quarterly basis to permit monitoring by MOF	Produce quarterly financial reports from mid-year.

	Phase out production subsidies to the Aden refinery.	Limit transfers to YR 17.4 billion in 2000.
Financial sector reforms		
Foster ability of financial sector to mobilize savings and channel them to productive investments.		Formulate strategy to strengthen rural savings and credit mechanisms.
Enhance effectiveness of monetary policy and foster development of capital market.	Develop secondary bill market through building of CBY stock of treasury bills, introduction of bearer bills, and use of repurchase and reverse repurchase operations.	Expand use of repos and ensure appropriate issue of treasury bills.
	Strengthen CBY capacity to conduct monetary policy through recently created monetary operations committee and a technical unit designated for data management and projections.	Formulate and conduct monetary policy based on reserve money targets.
	Free market determination of interest rates, and reduced intermediation costs.	Eliminate minimum benchmark deposit rates.
Address nonperforming loan problems and ensure effective and timely loan contract enforcement so as to improve banking system efficiency and ensure private sector obtains credit on reasonable basis at market conditions.	Enforce the 1998 agreements with all private commercial banks on provisioning schedules regarding non-performing credits, and ensure all banks have made proper provision for bad and doubtful debts before dividends are paid.	Strengthen capitalization and provisioning, especially for state banks.
	Maintain bad loan notification system with threshold of 5 million rials.	
Establish modern legal framework and new financial instruments.	Strengthen independence of Central Bank and its supervisory capacity.	Promulgate agreed Central Bank Law.
Ensure bank soundness and effective prudential oversight.	Strengthen prudential supervision and enforcement of prudential regulations.	Complete risk rating for each commercial bank and adopt supervisory strategy for each bank based upon the rating
Privatization of public sector commercial banks	Sell at least 51 percent of government shareholding in NBY to the private sector and implement YBRD institutional and financial restructuring.	Privatize NBY and for YBRD, settle government quasi-public guarantees, ensure compliance with 1998 banking law, and resolve major contested claim on private debtors.
	Implement agreed action plans for restructuring, privatization, merger, or liquidation of the three specialized public banks (Housing, Industry, and Agriculture).	Complete liquidation of Industrial Bank.
External sector policies		
Prepare and actively pursue accession to WTO.		Identify the steps needed for accession to WTO (including required changes to intellectual property rights and patents legislation).

	Further liberalize trade regime.	Remove import bans for economic reasons; and publish list of remaining restrictions, confirming the liberalization of all petroleum product imports. CBY to remove corresponding restrictions on opening LCs and the requirement to obtain an import license
Exchange system and trade reforms: Maintain liberal foreign exchange market.	Pursue independently floating exchange rate regime.	
External debt policies: Maintain prudent debt management policy and normal financial relations with creditors.	Limit recourse to nonconcessional borrowing, and implement debt management system (DMFAS) at Central Bank and MOF, with appropriate links to MOP.	
	Pursue debt relief under traditional mechanisms (Paris Club) and complete commercial debt relief under IDA facility.	
PRIVATE SECTOR-LED GROWTH		
<i>Regulatory framework</i>		
Enhance regulatory and legal framework appropriate for market economy.	Remove regulatory obstacles to the functioning of goods and factor markets.	Review legal and regulatory environment for private sector activity, and formulate labor market policies conducive to higher investment and job creation.
	Reform investment law in line with FIAS recommendations, reducing controls and red tape, and enhance investor support services.	Parliament approval and effectiveness of new law.
	Intensify consultation with the private sector to set up a more efficient and private-sector friendly bureaucracy	
	Liberalize entry and prices in trucking and shipping sectors	Adopt liberal trucking law.
	Develop Aden Free Zone as test case for modern legal/regulatory/judicial framework for investment.	Assess investors' interest in Aden Free Zone.
Encourage NGO and private sector participation in community based development activities.	Enact and implement supportive NGO legislation.	Adopt appropriate NGO legislation.
<i>Judicial reform</i>		
Strengthen policy to foster rule of law.		Initiate studies under World Bank supported project on judgement execution and court administration.
Strengthen the administration of justice in economic sphere.	Enhance judicial training, focussing on refresher courses for judiciary on commercial and business law, modernized curricula, and arbitration.	Initiate judicial training program.

	Make commercial courts more effective, through (i) requiring decisions, including holding and reasoning, be made in writing and publish selected decision; (ii) strengthen enforcement of court decisions through bailiff system; (iii) enhance monitoring of court operations; and (iv) ensure courts are staffed with highly qualified and well-paid judges.	Publish selected Supreme Court commercial judgements. Initiate training of judicial police to enforce judgements.
<i>Privatization and public enterprise reform</i>		
Promote private sector-led growth.	Implement three-year privatization program comprised of agreed lists of enterprises to be privatized/liquidated in each year.	Formally re-establish TPO as secretariat to the High Commission and complete sale of at least 31 enterprises.
ECONOMIC MANAGEMENT AND ADMINISTRATIVE EFFICIENCY		
Enhance governance in key areas.		Analyze causes and sources of corruption.
<i>Budget management reform</i>		
Strengthen government capacity to formulate, control, and monitor the budget.	Implement budget management reform program.	Establish macroeconomic studies unit, revise budget preparation guide.
Strengthen ability of local communities to formulate and execute public investment programs tailored to local needs.	Implement local authorities' law.	Prepare implementation of the law.
<i>Civil service reform</i>		
Contain government wage bill	Retire all civil servants and public enterprise employees beyond retirement age.	Retire at least 12,000 civil servants.
<i>Pension fund reform</i>		
Ensure financial viability and capacity to facilitate retrenchment in public sector employment.	Revise public pension law and implement reforms consistent to ensure long-term financial viability.	Agreement on revised law, submission to cabinet.
	Implement similar reform programs for pension funds of Ministries of Interior and Defense and for private pension fund.	
<i>Improve statistics</i>		
Establish effective poverty monitoring system	Establish and update on a regular basis key statistical indicators for monitoring the impact of anti-poverty policies, including household expenditure and community surveys (to be repeated on a three-year cycle) to determine who is poor.	Publish results of 1999 Poverty and Labor Market Surveys.

Improve quality and availability of economic and financial statistics.	Implement programs to upgrade economic statistics, including through improving institutional arrangements and the development of appropriate surveys to close existing data gaps.	Introduce CPI based on 20 cities rather than 2 cities.
STRENGTHEN POVERTY REDUCTION FOCUS OF SECTORAL POLICIES		
Formulate long-run poverty reduction strategy to be updated annually.		Identification of poverty and growth consequences of sectoral policies to incorporate into specific action plans for full PRSP.
<i>Social safety net policies</i>		
Provide employment, training, and income support to the poor and vulnerable.	Improve monitoring of costs and benefits of various programs addressing poverty (including the social welfare fund (SWF), the public works program, the Social Fund for Development, and existing training programs, especially those for women). Use results to more effectively deploy resources available for social safety nets.	Increase budget resources for SWF to YR 7.8 billion, and coverage to 450,000 households. Launch next phase for SFD, including a major expansion in its activities.
	Delegate collecting certain revenues to local authorities in order to expand local authorities' SSN resources in accordance with law on local administration.	
<i>Social sector policies</i>		
Strengthen basic health services, especially preventive care and family planning.	Implement reform program designed to increase access to basic health facilities; preventive/promote care programs; and family planning. Increase budget for materials and supplies, O&M and upgrading of medical facilities.	Implement the agreed recommendations of the PER in health for the 2000 budget.
Strengthen basic education, especially for females.	Implement reform program designed to increase basic and secondary school enrollment; increase share of expenditure going to basic and secondary education; allocate expenditures among governorates on the basis of enrollment, with special emphasis on increasing female and rural enrollment; and improve school construction programs.	Increase the share of basic education in the total education investment budget to 64 percent. Increase the share of nonpersonnel recurrent expenditures in total recurrent expenditures for education to 8 percent.
<i>Environmental policies</i>		
Establish sustainability of water resources.	Implement a national water policy and regional water management plans.	

Adopt economic policies conducive to environmental preservation.	Eliminate gradually diesel subsidy to slow the depletion of ground water and the proliferation of private power generators; and maintain cross-subsidization of LPG to contain deforestation. Discourage concessional donor financing of water pumps.	Increase domestic diesel prices (2001).
Utilities		
Enhance efficiency of utility service provision to the poor.	Implement reform program designed to encourage private sector participation (allowed to set their own tariffs) and, for water utilities, move to autonomous regional utilities.	
Agriculture		
Improve productivity and sustainability of irrigated agriculture, and productivity and income in rainfed and livestock systems	Eliminate subsidies for groundwater irrigation. Remove policy disincentives to rainfed farming. Promote community management of groundwater and watershed resources. Promote investment in improved irrigation. Conduct and disseminate research on improved irrigation, rainfed farming and livestock systems. Promote decentralized, community-based rural development programs.	Adopt Aden Agenda. Approve Spate Irrigation Project. Design and launch program of targeted incentives for adoption of drip irrigation technology. Initiate preparation of a National Agricultural Technology Project.
Improve efficiency of producer services, -crops, livestock and fisheries	Promote private sector participation in producer services. Promote farmer self-help. Improve fisheries resource management and develop a long-term strategy on the role of industrial and small-scale fisheries.	Adopt Aden Agenda. Design and initiate action plan based on Fisheries Workshop.

Annex 3: The Five-Year Plan and the Poverty Reduction Strategy

