

Yemen: Forging a New Consensus

DESPITE THE ACHIEVEMENT OF POLITICAL STABILITY and recent economic improvements, Yemen remains one of the poorest countries in the world. A recent OED study found that the country continues to be hobbled by serious water shortages, rapid population growth, and a wide gender gap, but has limited institutional capacity to deal with these issues. Although assistance from the International Development Agency (IDA) has become more relevant and has had a greater macroeconomic impact in recent years, there is considerable room for improvement. Before 1995, IDA lending to Yemen was limited, primarily because of political and economic instability, and the results were modest. Since 1996, IDA assistance has increased in scale and scope. IDA should now focus on removing obstacles to private sector growth, improving water management and development, closing the gender gap, and strengthening governance in the country.

Background

Thirty years ago, the social indicators for the area now known as Yemen were among the lowest to be found anywhere in the world. Only one in ten adults was able to read, and just 5 percent of the population had access to safe water. Although progress has been made—literacy rates are now just over 50 percent for males and safe water is available to more than half the population—Yemen's social indicators still place it among the poorest countries in the world.

The Yemen of today was created by the fusion of two countries with different

political and economic orientations, the Yemen Arab Republic (YAR) in the north and the People's Democratic Republic of Yemen (PDRY) in the south. Their union in 1990, prompted by a desire for economies of scale and the need to cooperate in developing oil and gas reserves, was followed by a period of political instability and severe unrest, culminating in a civil war in mid-1994.

Yemen also inherited serious macroeconomic imbalances and suffered further shocks, including a precipitous drop in foreign aid; a huge influx of returning workers following the Gulf War, which led to in-





Three young girls in the village of Shibam.

creased demand for services just as their remittances ended; and a punishing two-year drought. Yemen had unsustainable budget and balance of payments deficits, a high inflation rate, and a heavy debt service burden.

In 1995, with the realization of political stability, the government undertook an ambitious program of structural reform, reduced the fiscal deficit, liberalized interest rates, and restricted increases in the money supply. Inflation was reduced, and real, non-oil growth increased, although the economy remains highly dependent—for 70 percent of government revenues in 1995—on oil exports.

A World Bank study found that only 19 percent of Yemenis live in poverty today, a remarkably low figure compared with countries with similar per capita purchasing power parity. But social indicators, including life expectancy, infant mortality rates, child malnutrition, school enrollment rates, and access to safe water and sanitation

show that the standard of living for a large portion of the population is still low. In addition, there is a pervasive gender gap, as evidenced by the bias toward educating boys, elevated mortality rates among female children, and fertility and maternal mortality rates that are among the highest in the world.

In spite of Yemen's economic and social needs, the country received relatively little attention from the donor community over the 1987–96 period. Net cash grants declined from an average of 18 percent of total government revenues in the 1980s to less than 2 percent in the 1990s. Official development assistance (ODA) averaged less than half that re-

ceived by comparator countries; only Nepal had a lower figure. IDA net disbursements, which represented about 13 percent of Yemen's total ODA flows, were also comparatively low.

Challenges to Sustainable Growth

Water. Yemen has long suffered from water scarcity, and shortages continue to intensify. Yemen's supply of renewable water—one of the lowest in the world—is being overexploited at a rapid rate. Government has been unable to regulate, price, or distribute water efficiently, or to arbitrate among competing demands, such as urban versus rural needs. In addition to the negative health effects of lack of access to safe water and sanitation, Yemen's future economic viability will depend on the availability of a minimum supply of safe water at reasonable cost.

TABLE 1: Social Indicators in Yemen and Comparator Countries, 1970 and 1996

	Yemen		Comparator Countries	
	1970	1996	1970	1996
Life expectancy (years)	39	54	44	49
Infant mortality (per 1,000 births)	186	98	155	106
Maternal mortality (per 100,000 births)	n.a.	1,400	1,290	960
Access to safe water (percent of population)	5	52	n.a.	42
Gross primary enrollment (percent of age group)	41	53	55	72
Gross secondary enrollment (percent of age group)	8	23	9	21
Adult illiteracy (percent of population 15 years and above)	90	62	79	54
Male illiteracy	87	47	71	43
Female illiteracy	97	74	86	65

Sources of Growth. Yemen depends heavily on oil and natural gas production and workers' remittances, which account for one-third of the current account foreign exchange receipts. The long-term challenge is to develop other, non-energy-related, and more labor-intensive sources of economic growth and exports. There is potential for growth in fisheries, tourism, and provision of trade and transport through the port of Aden. To increase activity in these areas, however, government must remove a number of perceived and real constraints to increased private sector activity.

Governance. In spite of reforms, the government continues to fight the perception of weakness. The civil service is overstaffed and underpaid. Private foreign investment, apart from the petroleum sector, has been negligible, largely because of governance issues. The situation is complicated further by the political and military strength of the tribes, which are not always on good terms with the central government.

Population Growth. The historically high population growth rate of 3.7 percent challenges Yemen's natural resource management and employment opportunities and makes it difficult to improve the overall standard of living. A more recent estimate points to a decreased growth rate of 2.7 percent, but this still implies a doubling of the population in just over 25 years.

Importance of Qat. Over the past 20 years, the demand for qat has increased continuously, and production has risen apace. The young leaves of the qat bush are chewed to induce euphoria and suppress appetite, and it is widely consumed on a daily basis by most Yemenis, including women and some children. Qat is of considerable social importance; business and political decisions are often made at qat sessions. It is also of substantial economic importance. Although its export is banned, about 90,000 hectares are given over to qat cultivation, which represents more than half the area devoted to cash crops. It contributes approximately 25 percent of GDP, employs about 16 percent of the labor force, and transfers income from urban consumers to the rural producers. Nevertheless, qat carries considerable negative welfare implications. Use by pregnant and lactating women is likely to lead to underweight babies, higher infant mortality, and malnutrition among young children. A 1992 survey revealed that even families below the poverty line spend about 10 percent of their income on qat.

Past IDA Assistance: Modest and Unsatisfactory

Until 1996, IDA assistance to Yemen was modest in size and scope, and overall outcome was marginally unsatisfactory. All support was in the form of investment lending that focused on agriculture (for integrated rural development, with an emphasis on constructing irrigation systems), edu-

cation (to train teachers), and infrastructure (primarily to build road networks). IDA's investment strategy during this period was constrained by difficulties in portfolio implementation, a lack of strong government commitment to economic reform, political uncertainty, and IDA's inability to engage in policy dialogue with the government. Lending lacked a strategic focus and clear set of priorities, and little attention was given to the government's limited ability to maintain investments.

IDA's strategies within sectors were diffuse. Efforts to increase girls' school enrollment, for example, were ad hoc and supply-driven. The program concentrated on increasing the number of female teachers, but equal attention was not given to providing schools that girls could attend—for instance, schools that were close to villages, with separate toilets for the girls and boundary walls for privacy. In addressing water resource management early on, IDA also gave mixed messages. The emphasis was on physical infrastructure; little attention was given to institutional issues, such as the degree of decentralization of national water authorities. As water shortages grew more imminent, IDA's actions became more relevant by focusing on the underlying causes, and in the past five years IDA has made an effort to address water shortages at the national level.

OED ratings of 83 completed projects show a high proportion of satisfactory outcomes compared with averages for the Middle East and North Africa (MENA) Region, for comparator low-income countries, and for the Bank as a whole. But ratings for institutional development and sustainability have been low, and sustainability of IDA assistance was frequently raised as a concern by government officials and other observers. Government officials frequently mentioned difficulties in maintaining the physical assets—ranging from irrigation systems to teacher training centers—built under IDA-financed projects. The Development Effectiveness Index (DEI),¹ a composite measure of ratings of outcome, institutional development, and sustainability, is higher for Yemen than for comparator countries during FY90–98, but below those of MENA countries and Bankwide averages. IDA's impact at the macroeconomic level was negligible, largely because of an absence of policy dialogue and structural adjustment.

Recent IDA Assistance: Better, but with Room for Improvement

In relevance and consistency, recent IDA assistance has been satisfactory. Once political stability was achieved in 1996 and the government showed commitment to structural reform, IDA assistance increased in scale and scope. Total annual commitments increased to \$120 million, compared with average annual commitments of \$48 million over the

previous decade. Indeed, in many respects 1996 represented a watershed year for IDA assistance to Yemen. The first Country Assistance Strategy—focusing on stabilization, structural adjustment, social protection, sustainable natural and human resources development, and portfolio implementation—was presented to IDA’s Board of Directors. A Resident Mission was established. Adjustment lending was initiated, along with interventions to mitigate the impact of the adjustment on the poor.

Between 1995 and 1997, Yemen restored stability and resumed economic growth, efforts bolstered by IDA assistance. But recent strategy and lending assistance, although largely satisfactory and more relevant than in the past, are still not sufficiently selective and are at risk of becoming diffuse. The sustainability of economic growth and other successes is uncertain; the price of oil, the linchpin of Yemen’s economy, dropped precipitously in late 1997 and has remained low. Project lending has included activities that might be justifiable on their own grounds, but do not answer urgent, top-priority needs, and sector work and lending assistance have shown inconsistencies. IDA has given too little attention to identifying constraints to private investment and growth, and assisting the government in removing them.

TABLE 2: OED Ratings of IDA Assistance to Yemen

	1990–95	1996–98 ^a
Overall outcome	Marginally unsatisfactory	Satisfactory
Institutional development impact	Negligible	Modest
Sustainability	Unlikely	Uncertain

a. Ratings refer to macroeconomic performance only.

Lessons and Recommendations

Yemen faces enormous challenges. Assistance to the country can be improved, however, if IDA establishes priorities in its future assistance strategy that are consistent both within and across sectors and focuses on ensuring the sustainability of its assistance. That means strengthening the capacity of appropriate agencies, reducing the complexity of project design, building broad consensus for reforms, allocating adequate resources during planning, and protecting vulnerable groups. Future IDA assistance to Yemen should focus on several key areas: growth, water resources, the gender gap, governance capacity, and consensus building and the social safety net.

Promoting Growth

With the achievement of macroeconomic stability, the next step for IDA is to identify measures that will ensure long-term, sustainable economic growth. Sector work should identify administrative, legal, regulatory, financial, logistical, and other constraints to private sector growth. IDA management can then consult with the government and other stakeholders, including donors, to determine an agreed strategy for dealing with them. Reforms and investments could be supported by a program of assistance using a variety of instruments—adjustment lending, technical assistance credits, institutional development grants, and learning and innovation loans.

Supporting Water Management and Development

The scarcity of water is a growing problem and must be addressed. IDA has done solid sector work, identifying the issues and potential solutions. IDA’s assistance should focus on strengthening the capacity of the institutions responsible for water management, as well as on the financing of badly needed infrastructure. IDA assistance could also benefit from better internal monitoring, to ensure more consistency across sectors and projects. IDA should establish a water group—including all IDA team leaders, project managers of ongoing and prospective projects that involve water and sanitation, and team leaders from the other donor agencies—to ensure that investments, arrangements for operating and maintenance, and the approach of each project are consistent with the overall strategy and approach agreed on with the government.

Addressing the Gender Gap

The impact of IDA projects in fostering the full participation of women and girls in the economic and social development of Yemen has been modest. Although many of the constraints to their full participation have been identified through sector work, the piecemeal approach employed thus far has been insufficient. Because of the considerable potential synergies across sectors, priority should be given to increasing female literacy (education), improving the health and nutritional status of women (health), and improving women’s access to extension services and inputs (agriculture). A community-driven approach should be used to ensure that targets and project designs are supported by the women themselves. IDA has successfully employed such a strategy in other countries—innovative programs in Bangladesh, India, and Pakistan can provide examples of good practices. IDA should support the involvement of a broad range of sources to deliver services to women and girls, including government ministries; nongovernmental organizations; and grassroots, community efforts.

Improving Governance

The sustainability of development efforts depends on the willingness of those in Yemen, from the national government to local communities, to maintain the investments and operate the systems put in place. So far, the record is not good, largely because of the low level of governance. IDA is currently supporting reform of the civil service, the judiciary, and the financial sector, but has yet to address the important areas of public expenditure reform, strengthening of the government's safety net programs, and pressing sectoral challenges, such as those in health, education, and water resource management.

IDA can also take a significant step toward improving governance in Yemen by dropping the use of the autonomous Project Implementation Unit (PIU), which disbands when a project has been implemented, undermining the very sustainability IDA is seeking. Instead, IDA

should coordinate with other donors and integrate the PIU function with the ministries and other public bodies that will be responsible for maintaining the investment when the project is complete. It would also be useful to focus on fewer subsectors and geographical areas in individual projects to render them more manageable.

Consensus Building and Protection of Vulnerable Groups

It is essential that a broad, national consensus be achieved on behalf of reform, and that protection be provided for vulnerable groups during the process. These elements are of particular importance in the context of proposed privatization, civil service reform, and subsidy reductions, steps that will necessarily bring reductions in family incomes.

¹ Now known as the Aggregate Project Performance Index (APPI).

A tent can be erected only
If there are poles to support it,
And no pole will stand
Unless the pegs are anchored.
Only if the pegs work together with the poles
Will the tent serve those living in it.

al-Afwah al-Awdi
Sheikh of the Madhij tribe, mid-6th century

Précis

Yemen Country Assistance Review by Laurie Effron, Ashok Khanna, Nandini Gunewardena, and Bob Boydell, Report No. 19030, March 10, 1999. Available to Bank Executive Directors and staff from the Internal Documents Unit and from regional information service centers, and to the public from the World Bank InfoShop: 1-202/458-5454
fax 1-202/522-1500
e-mail pic@worldbank.org

Photo by Ashok Khanna.

Please address comments and inquiries to the Editor, Caroline McEuen, tel: 1-202/473-1764
fax: 1-202/522-3125, e-mail: cmceuen@worldbank.org

Please address publication requests and inquiries to OED, tel: 1-202/458-4497, fax: 1-202/522-3200,
e-mail: OED_Help_Desk@worldbank.org

This and other OED publications can be found on the Internet, at <http://www.worldbank.org/html/oed>

DISCLAIMER OED *Précis* are produced by the Operations Evaluation Department, Partnerships and Knowledge (OEDPK), of the World Bank. The views here are those of the Operations Evaluation staff and should not be attributed to the World Bank or its affiliated organizations.