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REVIEW OF THE PROGRESS MADE BY THE REPUBLIC OF YEMEN IN THE IMPLEMENTATION OF THE NEW PROGRAMME OF ACTION FOR THE LEAST DEVELOPED COUNTRIES FOR THE 1990S

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Preface

This study is in implementation of activity entitled " Review of the Progress Made by the Republic of Yemen in the Implementation of the New Programme of action for the Least Developed Countries for the 1990s".

Introduction

The economic growth in the Republic of Yemen is affected by several exogenous and indigenous factors, such as the workers' remittances, economic aid, the performance of the agricultural sector and the economic policies applied. Immediately after the Unification in 1990, the economy of the country had been negatively affected by the ramification of the Gulf Crisis in 1990/1991 and the internal conflicts in the Summer of 1994.

In late 1994, the macro-economic imbalances intensified and reached the point which could not be ignored. These conditions prompted the Government to formulate, with cooperation of both the International Monetary Fund (IMF) and the World Bank, Structural Adjustment and Economic Reform Programme (SAERP), commonly named the program for Financial and Administrative Reform. This programme is divided into two phases, the first which was started in 1995, and will end by December 1997, aimed at regaining fiscal and monetary stability, by reducing sharply the budget deficit, stabilizing the exchange rate of local currency (The Yemeni Rial - YR) and reducing the inflation rate. The Government has succeeded in implementing the first phase. The budget deficit was cut from 16.4 percent of GDP in 1994 to around one percent, inflation rate was dropped to about 4.0 percent down from 56.0 percent in 1995, and the exchange rate remained relatively stable at 120 - 130 YR to US dollar.

The second phase of this programme, which will start in January 1998, will tackle the structural imbalances of the economy. It will include the reform of tax system, trade liberalization, privatization process, and reform of the institutional framework.

The country has made progress in the implementation of the New Programme of Action for the Least Developed Countries for the 1990's. The Economic Reform Process has started and made progress in reducing imbalances, the private sector has been given additional incentives and economic institutions are being reviewed. In addition, the Government has been granted external debt reduction as part of the implementation of SAERP.

The main objectives of this study are to review the economic performance of the country, both at macro-economic and sectoral level, analyze the on-going SAERP, particularly the first phase, the development in social services. The study also provides a set of policy recommendations for the consideration of policy makers in yemen.

The study comprises five chapters. The first analysis economic development at the macro level; the second reviews and analysis the external sector of the yemeni economy. The sectoral developments are discussed in chapter three; and chapter four reviews the social developments (population, education and health). Finally chapter five provides a set of policy recommendations.

MACRO-ECONOMIC DEVELOPMENT

1. GDP growth

Macro-economic developments in the Republic of Yemen are affected by both exogenous factors such as development aid and workers' remittances as well as indigenous factors, reflected in limited domestic economic resources and economic policies applied. Moreover, economic growth is closely linked to the performance of the agricultural sector, which represents the most important sector both in terms of contribution to the GDP and employment generation. Economic aid and workers' remittances play a major role in the country's economy as both contribute to the inflow of foreign exchange and hence help in reducing the domestic investment- saving gap. Prevailing economic policy also plays an important role in the performance of the economy. Good economic management lead to the effective mobilization of the country's limited economic resources, and hence contribute to a better economic performance.

The economic policies applied during the period leading to the introduction of the economic reform programme, reflected mainly in highly regulated trade system, price control, negative interest rate on deposits and multiple exchange rates for the local currency may have contributed to the slow economic growth achieved during that period

During the period 1990-1997, the economy of the Republic of Yemen has passed through two stages. The first stage (1990 - 1994) was characterized by: (a) huge increase in government expenditure, as required by the Unification process; (b) economic instability as a result of trying to integrate two completely different economic systems, where the Southern Part (the former Democratic Yemen) was the applying a centrally planned economic system, while the former (Yemen Arab Republic) was adopting a relatively market economy; (c) the ramification of the Gulf crisis of 1990 - 1991, which led to the return of hundreds of thousands of Yemeni expatriate from the GCC countries, particularly from Kuwait and Saudi Arabia, which led in the subsequent years to a sharp drop in workers remittances. In addition, the Gulf war led to a sharp drop in economic assistance from the GCC countries; the merging of two completely different administration systems which resulted in higher degree of beaurcracy.

During the period, the country's GDP grew by an average annual growth rate of only 1.4 period while the population grew by the average of 3.7 percent, which means that the actual per capita income dropped during that period.

The economic crisis reached its peak and emerged in dramatic macro-economic imbalances in 1994, by the internal conflict in the summer of that year. During the conflicts oil production and supporting services were (briefly) halted, agricultural and industrial activities were sharply dropped; and government services deteriorated. In late 1994, there was an increased awareness of the need for economic reform and the correction of both external and internal macro-economic imbalances. To achieve this goal, intensive negotiations were held with International organizations and donors to formulate a structure adjustment as economic reform programme. This programme which included policy package for fiscal and monetary reforms policies, was adopted in 1994 and covers the 1995 - 1997 period. The main features of this programme are :

1. Control of money supply by depending increasingly on the treasury bills as a tool of

budget finance.

2. Price liberalization, through a decrease in government subsidies provided for some commodities such as rice, wheat, wheat flour and some basic medicine.

3. Liberalization of interest rates.

4. Unification of the exchange rates of the local currency and freedom of external transactions.

5. Putting credit ceiling provided to non-productive sectors.

6. Partial liberalization of foreign trade and reform of customs tariffs.

7. Privatization policies.

Table (1)
Performance of macro economic Indicators before and after implementation of (SAERP)

Item	1991	1994	1997* Estimation
1- GDP growth	0.31	(0.46)	4.8
2- Per-capita GDP(in USdollars)	486	324	306
3- Growth of Per capita	(29.2)	(15.2)	8.1
4- Inflation rate (CPI)	36.0	45.0	4.0
5- Interest rate(rate on deposit)	15.0	15.0	15.5
6- Budget deficit as percent of GDP	6071MN 4.2	44271MN 16.3	12766MN 1.8
7- Unemployment rate	NA	10.0	17.0
8- Trade balance (in millions of USdollars MN	(723.5)	165.4	(54.4)
9- External debts (million of US dollars)	8371	8473	NA
10-Debt services (million of US dollars)	222.6	143	88.9
11- Debt services as percent of total export	18.9	8.7	7.8
12- International reserves (million of US ollars)	502	300	807
13- Exchange rate $1=YR	22.12	55.24	128.0
14- Population (millions)	13.307	14.871	16.520
15- Population growth rate	3.7	3.7	3.7

Source: Republic of Yemen - Ministry of Planning and development, unpublished data, 1997

* During the first 9 months only.
(NA) Not available
( ): Indicates negative

The second phase (1995-1997) witnessed the implementation of the first part of the structural adjustment and economic reform programme.

The programme has achieved its purposes in controlling inflation rate, reducing budget deficit and regaining stability in the exchange rate of the local currency. However, this success is not sufficient for the long term economic development of the country and the social price paid during transition has been too high. For example, the actual per capita consumption dropped by 20 percent during the 1995 - 1997 period, which means a decline in living standard of large segment of population. Furthermore, the per capita income fell by 55.7 percent to $306 compared with $686 in 1990.

GDP growth rate during 1995-1997 period reached an average of 6.1 percent compared with an average of 1.7 percent achieved during 1990 - 1994. This relative improvement in economic growth is attributed mainly to the fact that during the base year (1994) the economic growth was very low, in addition to the general improvement in macro-economic policies.

The second phase of Government reform programme (the so-called supported programme) will be implemented starting 1998. This programme, which will include structural reform of the economy, will cover the following issues:

1. Investment policies. This policy aims at attracting the inflow of foreign capital.

2. Taxation system that will cover sale tax and income tax.

3. Foreign trade liberalization

4. Continuation of privatization process

5. Support social care fund for the protection of vulnerable groups.

In general the recent changes in macro-economic policies adopted by the government as part of its economic reform programme are expected, if continued, to pave the way for rabid economic growth in the coming years. The second phase if the economic reform that will take place in 1998 and which are expected to include the restructuring the country's economy and promote further the role of the private sector will, if implemented, have a profound impact on the performance of the economy in the long-run. The macro-economic stabilization, which has been fairly successful, in addition to the more fundamental changes expected, as a result of the implementation if the phase two of the economic reform programme, will boost the inflow of the private investment, and hence, contribute to the bridging of the currently wide investment-saving gap. This will enhance the prospect for an economic recovery and set the tone for the sustainable economic growth and development for the country, and thus promote the living standards of the people. In particular, the promotion of the economic growth would lead to an increase in the per capital income which fell sharply during the last few years.

2. Structure of GDP

There has not been any major changes in the structure of the country's GDP during the last few years. The agricultural sector remains the most important sector in the country's economy. The contribution of this sector changed slightly from 29.7 percent in 1990, to an estimated 28.9 percent in 1997 (table 2).

The main change in the structure of GDP was the drop in the contribution of the producers of the government services from 15.8 percent to 7.4 percent. The main factor for the decline in the share is the restrictive fiscal policies adopted by the Government, as part of its implementation of structural adjustment and economic reform programme.

In general, there has been a shift in the structure of GDP towards the commodity sector. The share of this sector rose from 83.0 percent to 87.3 percent, which represents a healthy shift towards the production sector. However, it should be noted that the main factor behind this change is the increased contribution by the oil sector. It is evident that there is a need to rehabilitate and upgrade the country's infrastructure, as a whole, which means that there will be a need in the future to increase government expenditure.

The modernization and upgrading of the country's infrastructure is a major factor to attract the inflow of foreign capital. It is, therefore, expected that the Government expenditure on services will increase and the contribution of this sector to GDP will consequently rise significantly, in the coming years.

Table(2)
The Structure of GDP by Economic activity, during 1990 - 1997
(At constant prices and percentage)

Item	1990	1991	1992	1993	1994	1995	1996	1997
1- Agriculture, forestry and fishing	27.9	26.3	29.5	30.4	30.2	30.4	29.6	28.9
2- Mining and quarrying	14.0	12.6	10.9	11.0	16.4	17.5	19.0	18.5
3- Manufacturing	8.1	9.5	9.9	8.9	7.0	7.5	8.0	8.2
4- Electricity, water and gas	3.4	3.5	3.5	3.5	3.5	3.5	3.0	3.9
5- Construction	2.7	2.9	3.2	3.2	2.7	3.0	3.1	3.1
6- Wholesale and retail Trade	12.6	13.6	13.4	14.0	13.2	14.0	14.0	13.8
7- Transport, storage & and communications	6.9	7.0	7.3	7.5	7.6	7.5	7.8	8.0
8- Financial institutions and real estate	5.6	5.9	5.4	5.4	5.8	5.3	5.2	5.0
9- Community, social, and personal services	1.7	1.7	1.7	1.7	1.7	1.6	1.7	1.5
10- Producers of government services	15.8	14.9	14.2	12.9	10.6	8.5	7.4	7.4
11- Producers of private, non-profit for households	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.1
12- Import duties	3.2	4.7	3.3	3.7	3.6	3.2	3.2	3.4
13- Less: imputed bank services charge	2.1	2.6	2.3	2.2	2.5	2.1	2.0	1.8
14- GDP at market prices	100	100	100	100	100	100	100	100

Source: The Republic of Yemen - Ministry of Planning and Development, Central Statistical Organization, Statistical Year Book, 1996 p. 380.

3. Inflation

Yemen has made a remarkable progress in controlling inflation rate. Inflation rate, as measured by consumer prices index (CPI), rose sharply during 1991 - 1994. The main factors behind this increase were, high fiscal deficit, precipitated by both the unification of the country in 1991 and the internal conflict in 1994, in addition to the sharp depreciation of the country's local currency Yemeni Rial (YR). Furthermore, removal of government subsidies led to higher prices for those previously subsidized commodities.

Inflation rate rose from 36 percent in 1992 to 45 percent in 1994, and it reached its peak of 56 in 1995 (table 3). However, as a result of implementation of structural adjustment and Economic Reform Programme (SAERP), the inflation rate dropped to 32 percent in 1996, and estimated to have dropped further to only 4.0 percent in 1997.

This noticeable drop in inflation rate in 1996 and 1997 can be attributed to the deflationary monetary policy and restrictive fiscal policy applied by the government starting 1995. For example, budget deficit as percentage of GDP dropped from 16.3 percent in 1994 to an estimated 1.8 percent in 1997. In addition, the stability of the exchange rate of local currency played an important role in reducing the inflation rate.

Table (3):
Development in inflation rates in the Republic of Yemen during 1991 - 1997

Years	1991	1992	1993	1994	1995	1996	1997
Inflation rate (CPI)	36.0	23.4	34.1	45.0	56.0	32.0	4.0

Source: Republic of Yemen - Ministry of Planning and Development, unpublished data, 1997.

The above analysis indicates that the government is determined to implement the SAERP, particularly in areas of fiscal and monetary policies to correct the country's macro-economic imbalances and achieve fiscal and monetary stability. The performance of inflation is closely linked to the continuation of applying the current policies.

In addition, an encouraging development noticed is the government's tendency to use treasury bills and bonds as tools to finance government expenditure instead of its previous heavy reliance on borrowing from the Central Bank. We suggest that the use of these tools should be expanded to absorb the existing huge sums of money outside the banking system. In 1994, this sum amounted to about 41 percent of GDP.

4. Interest rate

Before the implementation of the economic reform programme, the interest rate on deposits remained almost unchanged and for several years it was negative. During the implementation of the economic reform, the government has increased the interest rate as monetary tool to absorb the excess liquidity and achieve monetary stability. For this purpose, the interest rate of commercial banks (deposits rates) increased from 15 percent in 1991 to between 25 - 27 percent in 1996, before falling to an estimated to 15.5 percent during the first nine months of 1997, as shown in table (4).

Table (4)
Developments in Interest rates in the Republic of Yemen during the period 1991 - 1997

Years	1991	1992	1993	1994	1995	1996	1997
Interest rates (percent)	15.0	15.0	15.0	15.0	22.0	27	15.5

Source: Republic of Yemen - Ministry of Planning and Development, unpublished data, 1997.

Furthermore, as a result of implementation of SAERP, the interest rate became positive i.e. higher than the inflation rate, which is expected to encourage savers to put their money in the banking system. This is a very positive development, which could lead to an increase in domestic saving and contribute to a better management of domestic liquidity.

The stability of the exchange rate and the control of budget deficit will lead a further reduction in the interest rate in the country in the coming years.

5. Fiscal developments

During 1991 - 1994 period, the government applied the expansionary fiscal policy to finance the unification process of the country in 1991, and to cope with the negative effect of the Gulf Crisis in 1990 - 1991, and to meet the extra needs of finance as a result of the 1994 internal conflict.

During this period also, the main financing tool was through borrowing from the Central Bank, to finance the budget deficit which reached YR44 billion, or 16.3 percent of GDP in 1994.

In 1995, and as a result of implementation of SAERP, the government pursued a restrictive fiscal policy, mainly through cut in government spending including subsidy.

As a result of this policy, budget deficit, as a percentage of GDP estimated to be dropped to only 1.8 percent in 1997. However, this improvement in fiscal position of the government in 1997 has been achieved mainly through the reduction of government spending, which cannot be sustained in the future, owing to the following :

a) The deterioration and over stretching of government services, particularly health and education, and therefore the government may need to increase spending on these services; and

b) The country's infrastructure is in urgent need of rehabilitation, expansion and modernization to meet the need of both population and to encourage foreign investment.

On the revenue side, the government needs to take steps to reform the tax system, including enforceability and reduction of tax evasion. In this respect, the SAERP calls the re-enforced economic tax reform and reform of tariff as a major component of the re-enforced of the second phase of the economic reform programme which will start in January 1998. Therefore, the government revenues are expected to be increased from these two major sources of income if the programme is fully implemented as expected by the year 2000.

Table (5)
Government Revenues, Government Expenditure and Budget Deficit as a percentage of GDP during the period 1991 - 1997

Item	1991	1992	1993	1994	1995	1996	1997
1- Government revenue (percentage of GDP)	26.0	18.7	17.3	15.8	20.8	23.8	NA
2- Government expenditure (percentage of GDP)	30.1	31.2	31.2	32.2	26.7	27.7	NA
3- Budget deficit (percentage of GDP)	4.2	12.5	14.0	16.3	5.9	3.9	1.7

Source: Republic of Yemen - Ministry of Planning and Development, Central Statistical Organization - Statistical Year Book, 1996.

5.1 Public Finance

5.1.1 Government expenditure

Public spending almost doubled during the 1991-1994 period, increasing from YR 44.1 billion to YR 87.1 billion (table 6), reflecting mainly the increase in current spending, which rose from YR 36.7 billion to YR 76.3 billion. Current spending represent 83.3 percent of the total public spending in 1991 and 87.6 percent in 1994. Even during the implementation of SAERP, which was accompanied by restrictive Fiscal policy, government expenditure continued to increase. In 1996, total public spending reached to YR 232.8 billion, up by 95.0 percent from its 1995 level. However, in 1997, it is estimated that public expenditure dropped sharply. During the first nine months of 1997, government expenditure reached only YR 97.9 billion, this sharp drop, which is in line with the government's efforts to reduce Fiscal imbalances, came as a result of the drop in the miscellaneous expenditure, which in 1996 represented 16.0 percent of total expenditure.

5.1.2 Revenues

During 1991-1994 period, public revenues rose by 12.9 percent to YR 42.8 billion in 1994, up from YR 37.9 billion in 1991 (table 6). Oil revenues represent the most important source of public revenues. In 1991, it represented 52.5% of total revenues, and 29.9% in 1994. During both 1995 and 1996, public revenues rose sharply to YR 91.5 billion and YR 232.3 billion, respectively, reflecting mainly the increase in oil revenues. Taxes and Customs duties represent the second most important source of public revenues, in 1991 it represented 31.0% while in 1992 it shared 22.2% of total revenues.

5.1.3. Budget deficit

The 1991-1994 period witnessed a deterioration in the fiscal position of the government, as fiscal deficit rose from YR 6.1 billion to YR 44.3 billion.

As a percentage of GDP, the budget deficit rose from 4.2 percent in 1991 to 16.4 percent in 1994, this sharp deterioration in the fiscal imbalances was one of the main factors behind the adoption of SAERP. As a result, budget deficit dropped to YR 27.4 billion in 1995 from more than YR 44.0 billion in 1994. By the end of fiscal year 1996, budget deficit was reduced to only YR 464 million. However, this trend is not expected to continue as the government needs to increase its public spending particularly in the areas of social services and infrastructure, which have been given priorities in the country's five years development plan (1996-2000).

Before the implementation of economic reform programme the budget deficit had been financed by an increase of many supply. This tool of finance, which is inflationary, led to a speedy growth of money supply, and hence contributed to the overall rise in inflation, particularly in 1994-1996. However, the government changed it's deficit finance policy as part of the implementation of the economic reform programme, by relying more on the treasury bills as a financing tool rather than borrowing from the Central Bank. This has helped in the reduction in money supply and thus in reducing the inflationary pressures by absorbing the excess liquidity, particularly that the outside banking system.

The increase in government revenues as a result of the increase in oil prices and revenues particularly in 1996-1997 has also contributed in reducing the budget deficit. The increase in oil revenues came at the right time for the country as it coincided with the implementation of the structural adjustment programme and thus helped in easing the usually tough restricted physical policy.

Table (6)
Government Budget, 1991 - 1997
(YR billion)

Item	1991	1992	1993	1994	1995	1996	1997*
1- Total expenditure	44.1	57.0	68.9	87.1	118.9	232.8	97.9
2- Total revenues	37.1	34.2	38.1	42.8	91.5	232.3	91.1
3- Deficit	6.1	22.8	30.8	44.3	27.4	0.5	6.8

Sources: Calculated from:

1- The Republic of Yemen - Ministry of Planning and Development, the first five years plan for Economic and Social Development (1996-2000), p. 364, 365

2- Central Bank of Yemen, Financial Statistical Bulletin, Vol. 8, No. 3, July-September 1997 p.p. 37-39.

* During the first nine months of 1997

6. Monetary development

The main features of the monetary policy of the country before the implementation of the economic reform programme were:

a) High ratio of liquidity outside the banking system. This can be attributed to several factors including the negative interest rate on deposits, which discourage savers from the using the banking system, insufficient public awareness to the importance of the banking system and the preference of several segments of population to hold cash at their disposal;

b) Negative interest rate, i.e. the interest rate was below the inflation rate;

c) Multiple exchange rate.

Those factors made it difficult to manage adequately the monitory policy and control the liquidity. Furthermore, this policy particularly the low interest rate during that period discouraged savers from channeling their money into the banking system. Most of the investment during that period were concentrated on land and real state.

The implementation of the economic reform programme has brought fundamental changes to the monitory policy. The main aims of the monitory policy under the economic reform programme are:

a) to reduce the inflation rate which reached high level in both 1994 and 1995; and

b) to stabilize the exchange rate of local currency.

For these purposes, the Central Bank increased the interest rate from 15.0 percent in 1994 to 27 percent in 1996, to absorb excess liquidity and support the local currency. In addition, the government introduced treasury bills as a tool to finance spending instead of borrowing from Central Bank, the total value of the treasury bills reached YR 41.9 billion[1] .

As a result of the above mentioned measures, the government succeeded in stabilizing the exchange rate of the YR between 120 - 130 YR per US dollar. Moreover, the budget deficit also reduced to around 2.0 percent of GDP. Also, inflation rate dropped to about 4.0 percent in 1997.

After achieving monetary stability, the Central Bank reduced gradually the interest rate from 27.0 percent in 1996 to 11.0 percent currently. The Central Bank also floated the exchange rate of the YR and reduced the legal reserves of the Commercial Banks denominated in YR from 25.0 percent in 1995/1996 to 15.0 percent in early 1997, and only 10.0 percent starting December 1997. The Central Bank also liberalized the movement of transaction in foreign currencies.

It seems that the Central Bank has not faced with a major shocks in area of foreign exchange, and the stability of the YR has not been tested yet despite the fact that the bank has not allocated reserves to intervene in case of sharp depreciation of the local currency.

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[1] The Central Bank of Yemen, Annual report, 1996, p.45

7. External debts

The total debts stock of the country, increased from US$ 8371 million in 1991 to US$ 11019 million in 1996[2], representing an increase of 31.6 percent. Most of this debt is owed to the Eastern European Countries particularly the Russian Federation, which represented in 1996 about 63.0 percent of the total debts, followed by the international organizations (19.9 percent). As a percentage of GDP, external debts was reduced from 126.8 percent in 1991 to 68.9 percent in 1997, reflecting mainly the reduction in the external debt owed to the Russian Federation.

As a result of the implementation of the SAERP, Yemen reached an agreement with Paris Club in November 1997, upon which the Russian Federation agreed to provide 80.0 percent discount on its outstanding debts, this led to drop in the Russian debts from US$ 6.7 billion to US$ 1.3 billion, which in turn is subject to a reduction of 67.0 percent, as stipulated Nepal agreement. Therefore, the total debt owned by the Russian Federation could be reduced to only US$ 400 million, to be paid over a period of 10 years.

This reduction in the external debts of the Russian Federation is expected to lead to a sharp drop in the country's external debt. The latest available (un official data) indicate that by the end of 1997, the country's total external debt is amounted to only about US$ 4.0 billion, which represents a sharp drop from its 1996 level of US$ 11019 million.

8. Debt service payments

Interest obligations rose from US$ 110.2 million in 1990 to US$ 222.6 million in 1991, before falling to US$ 143.9 million in 1995, and only US$ 88.9 during the first half of 1997. As a percent of total exports 7.9 percent in 1990 to 18.6 percent in 1991 before falling to 7.3 percent in 1995, and 7.8 percent of the first half of 1997. The main factor behind the fall of the debt services is the debt reduction achieved by the country as part of the implementation of economic reform programme. Debt services are expected to continue to fall further, as more debt reduction is expected and, therefore, debt services are not expected to be a major problem for the country's economy.

9. Investment policy

The government, as a general policy, encourages private investment, both local and foreign. For this purpose, the government issued the investment law No. 22 of 1991, which is amended by law No. 14 of 1995. This law provides incentives to private investors in several sectors, particularly tourism, transport and telecommunications, education, health, and industry, excluding oil and gas.

The main incentives provided are:

1. Projects in the previous sectors are exempted from profit tax for seven years from the date of the commencement of production of the project.

2. These projects shall be exempted from all real estate stamp tax and business practices tax imposed on establishment operating in the country.

3. Project shall be exempted for five years, from the date of commencement of

[2]Ibid, p. 85

production, from all taxes and fees on proceeds from licensing the use of imported technology utilized in the projects.

4. Interest on loans granted to finance projects shall be exempted from 50 percent of taxes levied their on.

5. The previous exemption can be extended for an addition two years for projects established in investment zone (B)[3] or be owned by a joint stock company in which public subscription is not less than 25 percent of the paid capital, or the proportion of the local component of fixed assets exceeding 25 percent of the total value of the project's total fixed assets.

The law calls for the establishment of a general Investment Authority as Judicial entity accountable to the prime minister. The main functions of the authority are:

1. To receive and appraise projects provided by investors and to decide their on in accordance with rules and procedures specified by this law;

2. To issue permits, approvals and certificates relating to carrying out and expanding of projects and the exemption and benefits accorded to them;

3 To grant import permits for fixed assets, raw and intermediate material, spare parts required to carry out and expand the approved projects;

4 To prepare and publish list of investment opportunities for the private sector;

5 To publish information and statistic on the investment climate in the country;

6 To approve the transfer of profits and capital abroad.

Furthermore, article (13) of the law stipulates that approved project may not nationalized or seized and their funds may not be confiscated or frozen unless by decree by courts of law. Real estate project also may not be expropriated unless for the public wail according to the law and a court judgment after providing a fair compensation. In addition, project license, or any right or exemption issued under this law may not be withdrawn unless according to judicial verdict. As a result of implementation of this law, the total licensed projects reached 1169 with total investment cost of YR 323.2 billion, as shown in table (7).

Despite the application of this law, which provides generous incentives to the private sector, additional efforts are needed to attract foreign investment. The country's infrastructure (both institutional and physical) needs to modernized and upgraded. Furthermore, lack of investment opportunities represent additional constraint on the inflow of foreign investment outside oil and gas sectors. Lack of skilled human resources is considered an important factor hampering the inflow of capital to the country.

Table (7)

[3] Zone (B) is arranged to projects in rural areas.

Total Number of Projects Licensed by the Head Office up to - October 1997

(In thousand Rials)

S.No.	Indicator	No. of Projects	Projects Licensed		Jobs Created
			Investment Cost	Fixed Assets	
1.	Projects licensed during October 1997.	15	2,843,280	2,360,363	474
2.	Projects licensed since establishment of the authority up to September 1997.	1154	320,326,444	103,816,010	58,167
3.	GRAND TOTAL	1169	323,169,724	106,176,373	58,641

Source: Investment Authority, Promotion Sector Management of Research and Studies.

10. Privatization Policy

Privatization represent a major component of the second phase of SAERP in the country, which will start in January 1998. Currently, the government is engaged in serious of measures to pave the way for the implementation of the privatization policy. In this respect, the government has formulated a draft privatization law.

The draft law, which is currently been debated by the Cabinet, and expected to be issued by presidential decree, aims at the following :

1. Reduce of the role of the government in the economic management.
2. Increase the economic efficiency of the country's economic activities.
3. Encourage the private ownership based on competition.
4. Increase the inflow of new investment and technology.

The draft law stipulates the following privatization methods to be applied :

a. Flow of shares through public subscription;

b. Joint-venture;

c. Leasing of management;

d. Sale of government assets through tenders;

e. Joint contracts in **capital and operating.**

Furthermore, the draft law calls for the establishment of high privatization committee headed by the Prime Minister and include the Ministers of Finance; Planning and Development; Civil Administration and Administrative reform; Labor; Insurance and Social Affairs; Construction; Housing and Urban Planning, Industry and the Minister of Agriculture and Water Resources. The main functions of the Committee are:

1. The adoption of proposals concerning the implementation of the privatization programme.

2. Appointment of the board of directors of the economic units to be privatized.

3. Preparation of the economic units to be privatized, particularly in areas of finance, administration and legal affairs.

4. Provision of recommendations concerning the employment problems in economic units to be privatized.

5. Ratification of training and rehabilitation programmes related to privatization.

Moreover, the draft law stipulates the establishment of privatization technical office reports directly to the head of privatization committee. The main function of technical office are the following :

a. Prepares technical publications and formulates the privatization programmes.

b. Reviews and analyzes proposals concerning privatization methods, restructuring of the economic units, and submit proposals and recommendations.

d. Contributes to the preparation of documents concerning tenders.

e. Provides assistance and views to determine the appropriate mechanism for shares and equities.

f. Assists in negotiations concerning privatization process.

g. Provides periodical reports to the high privatization committee concerning the privatization activities.

h. Monitors the privatization process and provides periodical reports concerning the economic units that have been privatized.

The privatization process in Yemen is still in its early stage, so far 23 hotels were privatized mainly through leasing or restitution (table 8). The second phase of privatization, which is currently under consideration, will cover various sectors such as trade, agriculture, transports, telecommunication, fisheries ports and power stations. For this purpose, the

World Bank has agreed to **provide Yemen with US $21 million** to prepare for his phase of privatization.

Some of the enterprises that are candidates for privatization, particularly in areas of trade and fisheries are not performing, and therefore will be sold as assets only.

The second kind of enterprises (large enterprises), such as Yemenia Airways, are in need of restructuring before being sold. In addition, projects such as power stations are not included in the privatization list, as well as the oil sector.

Table (8)
Republic of Yemen,
Summary of Privatization to June 1996

Name of Enterprise	Sector	Divestiture Strategy				Staff Rationalization		Consideration		Restriction	Remarks
		Assets Sale	Lease Period	Restitution	Other	Employed at Privatization	Number Retrenched	Sale YR/-	Total Lease Rent Payable YR/-	Value of Assets YR/-	
Aden Hotel-220 Rooms	Tourism		1990-2000			226			$6,100,000		Lease to private sector from inception
Gold Mohr Hotel-120 Rooms	Tourism		1996-2016			164	114		$10,400,000		
Crescent Hotel-72 Rooms	Tourism		1996-2016			126	86		YR 123,750,000		50 percent rent in $
Rock Hotel-60 Rooms	Tourism		1996-2016			100	70		YR 105,000,000		
Rawda Hotel-32 Rooms	Tourism		1988-1998			-	-		YR 3,600,000		
Sailor's Club Hotel-10 Rooms	Tourism		1992-2007			-	-		YR 7,800,000		To be converted to Star
Ambassador Hotel-30 Rooms	Tourism			1994		84	77				
Qasr Al Jazira Hotel-30 Rooms	Tourism			1994		50	40				
Huriyya Hotel-22 Rooms	Tourism			1994		38	23				

Name of Enterprise	Sector	Divestiture Strategy				Staff Rationalization		Consideration		Restriction	Remarks
		Assets Sale	Lease Period	Restitution	Other	Employed at Privatization	Number Retrenched	Sale YR/-	Total Lease Rent Payable YR/-	Value of Assets YR/-	
Sea View Hotel- 30 Rooms	Tourism			1994		57	57				
Mukalla Hotel- 24 Rooms				1994		49		R 103,806			
Al Shaa'b Hotel- 32 Rooms	Tourism			1993		55	45	R 1,441,239			
Ghalila Night-	Tourism		1992-2005			6			R 2,028,000		3 Star Hotel to be built
Qatn Rest House- 6 Rooms	Tourism		1991-2006			7		R 130,000	R 1,326,000		
Gail Ba Wazeer Rest House- 11 Rooms	Tourism			1996		11					
Qibah Palace Hotel- 14 Rooms	Tourism			1992		18		R 1,510,260			
Ard Al Jannatin Hotel- 28 Rooms			1997-2017			15	8	R 306,000			
Dar El Hajar Palace			1995-2005			-	-		R 3,420,000		
Thula Hotel- 10 Rooms	Tourism		1994-2004			-	-		R 420,000		
Al Sharg Hotel- 8 Rooms	Tourism			1994		14	12	R 160,234			

Name of Enterprise	Sector	Divestiture Strategy				Staff Rationalization		Consideration		Restriction	Remarks
		Assets Sale	Lease Period	Restitution	Other	Employed at Privatization	Number Retrenched	Sale YR/-	Total Lease Rent Payable YR/-	Value of Assets YR/-	
Arwa Rest House	Tourism		1996-2006			8	-		R 20,100,000		
Abyan Rest House Night Club	Tourism		1996-2011			11	11		R 18,900,000		
White Gold Hotel-7 Rooms	Tourism			1994		15	15				
Nashwan Park & Restaurant	Tourism		1976-1996			-	-		R 10,400,000		
Elephant Gulf Restaurant	Tourism		1993-2013			-	-		R 14,784,000		Damaged
Beach Rest House	Tourism		1992-								Build 3 Star Hotel

Source: Tissa Jayasinghe, privatization advisor, UNIDO.

II. EXTERNAL SECTOR

The government policy in area of external trade passed through various stages, depending on prevailed economic conditions. In the early 1990's, immediately after the unification of the country, Yemen faced with the ramification of the Gulf Crisis, in particular the return of the Yemeni expatriates. During this period, the government was prompted to increase imports to meet the needs of those expatriates.

After 1994, with the implementation of SAERP, there has been a gradual liberalization of the foreign trade, as the country moves towards the free market economy. The current foreign trade policy is aimed at gradual elimination of the trade restrictions, including import restrictions, except for those banned products. This, however, may help the domestic manufactures who depend on the import of raw materials and intermediate goods, but it will definitely hurt the Yemeni farmers, who benefited from the previous ban on the importation of fruits and vegetables. The removal of trade restrictions, particularly on agricultural products will hurt those farmers, at the least on the short-run, and therefore, measures should be taken to protect their products. However, in the long-run, the answer rests on the improved quality of the domestic agricultural products.

The current foreign trade policy is based on the following factors:

a Promotion of exports particularly non-oil exports, which remain very low (in 1995, represented only 5.8 percent of the total exports[4]).

b Trade liberalization, particularly for imports.

c Promotion of role of the private sector and reduce of the role of government in foreign trade.

Currently the governments efforts are concentrated on the following :

1 The completion of the institutional arrangements in the area of foreign trade, including amendments and revision of the foreign trade law, to cope with the new policy of trade liberalization.

2. The completion of infrastructure in areas of foreign trade, particularly in areas of transportation and storage.

3. Encouraging the banking system to play a major role in trade finance.

1. Exports

Total value of exports increased from US$ 1196.8 million (including oil) in 1991, to US$ 2262.8 million in 1996 (table 9), representing an increase of 89 percent. The oil exports revenue represented 84.9 percent of the total exports in 1991 and 87 percent in 1996. This high percentage of oil exports indicates lack of diversification in the export sector. In addition, the export of oil is highly vulnerable to the developments in the international oil markets and therefore is beyond the government's control.

[4]The Republic of Yemen, Ministry of Planning and Development, the first five years Economic and Social Plan (1996-2000), P.120.

Non-oil exports remain very low, and reflect rigidity in the country's production sector. Trade liberalization in light of implementation of SAERP will negatively affect the exports of non-oil products in the short and medium term, owing to its lack of competitiveness in the international markets. Therefore, the government should take measures to protect these highly vulnerable exports, particularly agricultural products. Furthermore, the oil exports, and in the absence of major oil discoveries, are not expected to increase dramatically in the coming years.

The major non-oil exports, which have a comparative advantage and the potential of higher growth rate is Fishery sector. The country's coast line is among the richest in the world in fisheries. With the adoption of right investment policies the sector is a promising export sector.

In light of the above, the country's total exports are not expected to witness a major change in the short to medium term. However, the implementation of the second phase of SAERP, which may lead to the easing of the rigidity in the production sector, including increased productivity, and hence efficiency, may lead to an increase in the non-oil exports.

2. Imports

Total value of imports increased form US$ 1920.5 million in 1991 to US$ 2293.5 million in 1996 (table 9), representing and increase of 19.4 percent, hence the export covered about 98.7 percent of the imports. Food items represent a major component of the total imports, in 1996 for example, food represented about 40.0 percent of the total imports while 60 percent of total imports is distributed among other times such as capital goods, consumption, industrial and semi-industrial products.

The application of SAERP, which include trade liberalization, is expected to lead to fast increase in the inflow of imports, which in turn would lead to the deterioration in the trade deficit which has improved in the last few years.

Trade deficit dropped from US$ 723.6 million in 1991 to only US$ 30.7 million in 1996. However, it rose again in 1997 to US$ 47.3 million (table 9). Trade balance was positive in 1994, mainly owing to a sharp drop in imports (27.9 percent in 1994), and an increase in oil exports by 93 percent.

Table (9) :
Total exports, imports and trade balance
in the Republic of Yemen
during the period 1991 - 1997

Item	1991	1992	1993	1994	1995	1996	1997*
Total exports	1196.9	1094.9	1166.9	1791.5	1835.9	2262.8	1142.7
Total imports	1920.5	1935.5	2138.1	1574.8	1885.3	2293.5	1190.0
Exports percentage of imports	62.3	56.6	54.6	113.8	97.4	98.7	96.0
Trade balance	(723.6)	(840.6)	(971.2)	216.7	(49.4)	(30.7)	(47.3)
Oil exports	1011.4	855.3	833.7	1610.8	1578.4	1976.2	999.1
Oil exports as a percentage of total exports	84.5	78.1	71.4	89.9	85.9	87.3	87.4

Source: (1) The Republic of Yemen - Ministry of Planning and Development- the First Five-year plan for Economic and Social Developments (1996 -2000)

(2) For 1996 and 1997 figures : Ministry of Planning & Development Unpublished data.

* Estimates during the first 9 months.
( ) Indicate negative

III. SECTORAL DEVELOPMENT

1. Agriculture

The agricultural sector is the most important sector in the Yemeni economy, both in terms of its contribution to the GDP and employment. In 1990, the agricultural sector (excluding fisheries) represented 27.9 percent, increased to 30.2 percent in 1994 before falling to an estimated 28.9 percent. Excluding Qat production, the agricultural sector represented 15.3 percent of GDP, 16.1 percent and 14.2 percent in 1990, 1994, and 1997, respectively.

Fisheries, which is the most promising sector in Yemeni economy and has a potential of fast growth remains modest, as it represent less than one percent of GDP.

Total cultivated area in 1996 reached about 1154,958 hectare (HQ)[5], representing about 2.0 percent of the country's total area. About 54.0 percent of agricultural production depends on the rainfall, 35.0 percent on wells, 9.0 percent on floods, and 2.0 percent on springs. This high dependency on the rainfalls and wells (89.0 percent) means that the agricultural production is highly susceptible to risk and uncertainty, and therefore, agricultural production is highly vulnerable to the climatic fluctuations.

Lack of water resources represents a major constraint on the expansion and development of the agricultural sector. In addition, lack of investment, inadequate agricultural services, and immigration from rural to the urban areas, are considered additional constraints.

1.1 Agricultural production

Cereal production fluctuated during the 1990-1996 period, as it dropped from 765,000 ton in 1990 to 448,000 ton in 1991 (table 10), representing a decline of 42.0%. In 1992, cereal production increased to 811,000 ton, representing an increase of 81.0% from its 1991 level, before falling by 20.6 percent in 1996 to 663,000 ton. the country has not achieved a self-sufficiency in cereal production and, therefore, it still imports a high portion of its domestic consumption.

Vegetable production also fluctuated along this line, it dropped, in 1991 to 642,000 ton from 696,000 ton in 1990, before increasing to 703,000 ton in 1996 (table 10). Fruits production achieved a steady growth during the same period, increasing from 313,000 ton in 1990, to 363,000 ton in 1995 and, 391, 000 ton in 1996. Owing to the increase achieved in the production of fruits and vegetables, the country has achieved self sufficiency and is able to export.

Meat production dropped from 97,000 ton in 1990, to 88,000 ton in 1995, and rose again to 97,000 ton in 1996. Milk production achieved a steady growth rising from 104,000 ton in 1990, to 154,000 ton in 1995, and 155,000 ton in 1996.

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[5] HQ = 10,000 M^2

Table (10)
Agricultural production during the period 1990 - 1996
(000 tons)

Item	1990	1991	1992	1993	1994	1995	1996
Cereals	765	448	811	825	802	835	663
Vegetables	696	642	681	730	646	691	703
Fruits	313	316	336	346	361	363	391
Red Meat	38	37	38	39	40	41	41
White Meat	59	37	48	54	30	47	55
Milk	104	149	152	155	151	154	155

Source:

(1) The Republic of Yemen, Ministry of Planning and Development, the First Five-Year plan for Economic and Social Developments, (1996-2000) pp. 95 and 96

(2) Data provided by the Ministry of Planning and Development (unpublished) 1997

1.2 Qat production

Qat is widely consumed in Yemen, and therefore, is considered a valuable cash crop for farmers. It has consumed more than 80,000 HQ, representing about 7.0 percent of the total cultivated area, and 25.0 percent of the irrigated land.

Qat production represented 12.0 percent of the country's GDP or 20.0 times the contribution of fisheries in 1990. In 1997, Qat is estimated to have represented 14.2 percent of the country's GDP, or 28.0 times the contribution of fisheries. The production of Qat achieved an average growth rate of 5.1 percent during the 1990-1997 period, it increased from YR 14.8 billion in 1990, to YR 18.2 billion in 1994, and YR 22.5 billion in 1997. As a percentage of total agricultural production, it represented 42.8 percent in 1990, and 48.9 percent in 1997.

The consumption of Qat represents a major component of the family budget. It is estimated that in 1995, Qat consumption absorbed between 18.0 - 30.0 percent of the family budget in the limited income groups. Qat production is considered as an important informal economic activity, in 1995 for example, it is estimated that 500,000 job opportunities were created in this informal sector.

Major constraints facing the agricultural sector:

1- Limited agricultural cultivated area (2% of the total land).

2- Lack of water resources.

3- Internal immigration from the rural areas to urban areas.

4- Inadequate agricultural services.

5- Lack of modern agricultural techniques.

6- Disbursement of the agricultural holdings.

7- Lack of investment in the agricultural sector, particularly by the public sector. In this respect, the agricultural share in government investment dropped from 16.5 percent in 1991 to only 8.5 percent in 1995, and expected to be 7.2 percent in 1998. This is considered inadequate taking into consideration that the agricultural sector represented 28.9 percent of the GDP in 1997.

2. Industry

The industrial sector is small sector in the Yemeni economy (excluding oil refining) both in terms of its contribution to GDP or employment. Manufacturing sector contributed 8.1 percent in 1990, 9.9 percent in 1992, before dropping to 8.2 percent to GDP in 1997. The number of industrial establishments dropped from 206 units in 1991 to 180 units in 1996.

The value of industrial production also dropped during the 1991-1996 period from YR 37.9 billion to YR 35.1 billion, representing a decline of 7.4 percent.

The extraction industries (mining and quarrying) represent the most important industrial activities, it represented 46.0 percent of the total industrial production in 1991, and 69.0 percent in 1996, followed by food stuffs, which represented 28.0 percent in 1991, before falling to only 12.5 percent.

The number of employees in the industrial organization establishments, rose from 28,637 in 1991 to 29,042 in 1996, representing an increase of 1.4 percent. Employees in the public sector represented 48.0 percent in 1991, before falling to 41.7 percent in 1996. On the other hand, employees at the private sector rose from 42.9 percent to 52.8 percent during the same period.

In terms of investments, the share of the manufacturing sector witnessed a declining trend during the 1990-1995 period. The share of extracting industries, which rose to 5.3 percent of the total government investment in 1992, dropped to less than one percent, while the share of manufacturing sector dropped from 28.9 percent in 1990 to 9.8 percent in 1995.

The extraction industries achieved a negative growth rate of 9.8 percent and 9.4 percent in 1991 and 1992, respectively. During the 1993-1996 period, the sector achieved a growth rates fluctuated between 3.7 percent in 1993 to 48.2 percent in 1994, before falling back to 13.4 percent in 1996.

The manufacturing sector, which grew by 17.6 percent in 1991, achieved a negative growth rates of 7.5 percent, 21.8 percent in 1993 and 1994, respectively, owing mainly to the sharp drop in the oil refining in 1994, which was precipitated by the internal conflicts during the year. The sector grew by 16.7 percent in 1995, and 10.5 percent in 1996, reflecting mainly the rebound in the oil refining.

The government's strategy in development of the industrial sector, particularly mining and quarrying, is focused on the following elements:

1- Encouraging the industrial activities that depends on the local raw materials, particularly in areas of mining, agriculture and fishing.

2- Promotion of small industrial units.

3- The application of modern technologies to reduce cost and increase efficiency.

The major constraints facing the industrial sector are:

a- Lack of investment.

b- Lack of skilled **manpower.**

c- High dependency on the imported raw materials and other imports.

d- Lack of modern technologies and production techniques.

e- Inadequate infrastructure.

However, the implementation of SAERP, is expected to remove some of the above mentioned constraints, particularly in areas of investment, pricing, and the promotion of the role of the private sector. Therefore, it is expected that the sector will play a more active role in the economy in the coming years.

Table (11)
Industrial indicators in the Republic of Yemen during the period 1990 - 1996

Item	1990	1991	1992	1993	1994	1995	1996
A- Contribution to GDP (percentage) 1- Manufacturing sector	8.1	9.7	11.1	9.8	9.2	10.2	10.7
2- Mining and quarrying	14.0	10.6	7.7	6.4	7.4	16.5	30.4
B- Value of Industrial Production (YR billion)	34.3	37.9	40.7	51.7	66.4	175.2	35.2
C- Employment in industrial organized Establishment (000)	NA	28.6	30.4	32.3	28.4	29.5	29.0
D- Investment as percentage of total government investments: 1- Manufacturing sector 2- Mining and quarrying	28.9 0.2	2.8 0.5	26.4 5.3	4.8 0.3	9.9 0.3	9.8 0.2	NA NA
E- Growth Rates (constant prices) 1- Manufacturing sector 2- Mining and quarrying	NA NA	17.6 (9.8)	9.2 (9.4)	(7.5) 3.7	(21.8) 48.2	16.7 15.7	10.5 13.4
F- Public sector as percentage of total Industrial production	NA	59.4	52.7	47.7	46.5	65.8	81.6

Source: Calculated from:

1- The Republic of Yemen, Ministry of Planning and Development, Central Statistical Organization, statistical Year Book, 1996

2- Data provided by The Ministry of Planning and Development (unpublished), 1997.

3- The Republic of Yemen, Ministry of Planning and Development, the First Five-Year Plan for Economic and Social Developments (1996-2000).

3. Oil

Oil production in the country increased steadily during 1991-1997 period, the average daily production rose from 197,400 barrel/day (b/d) in 1991 to 330,643 b/d in 1997 (table 12), representing an increase of 67.5 percent. The Government's share of total production represented 59.9 percent in 1991, and 54.5 percent in 1995, and the rest went to the oil companies. Oil exploration has intensified in 1996, which resulted in additional oil discoveries amounted to around 189 million barrels. It is expected that oil production will reach 387,900 barrels/day in 1998 before falling slightly to an average of 360,700 barrel/day in 1999.

4. Natural gas

Gas production increased sharply during the 1990-1996 period. It rose from 5.707 million cubic meters (MCM) in 1990 to 22.19 million (MCM) in 1996 (table 12), representing an increase of about 400 percent. The government's strategy is to intensify gas exploration and marketing to add to its current reserves for both export and domestic consumption. Taking into consideration the small size of its oil reserves (about 4.0 billion barrels), gas production can play a major role in its exports and hence diversifying its export sector.

table (12)
Oil and Gas Production during 1990-1996

Item	1990	1991	1992	1993	1994	1995	1996
Oil production (b/d)	194,600	197,400	179,400	216,300	337,300	343,800	346,800
Government's share	107,800	118,400	94,800	116,300	181,700	187,300	NA
Companies' share	86,800	79,000	84,600	100,000	155,600	156,000	NA
Gas production (MCM)	5.707	6.297	8.616	13.056	21.724	22.190	NA

Source: The republic of Yemen, The Ministry of Planning and Development, The First Five-Year Plan for Economic and Social Developments, 1996-200. Page 371.

IV. SOCIAL DEVELOPMENT

1. Population Growth

Total population in the Republic of Yemen reached about 16.5 million in mid - 1997, up from an estimated 12.9 million in 1990 (table 13), representing an average annual growth rate of 3.5 percent. This growth rate is among the highest rate in the ESCWA region and in the world. This high growth is attributed to the high birth rate (46 per thousand) in 1996 and low death rate (11.3 per thousand). More than 75.0 percent of total population lives in the rural areas. Infant mortality ratio reached 88.2 per thousand for males and 75.0 per thousand for females in 1996, crude death ratio was estimated at 12.9 per thousand for males and 11.0 per thousand for females. Live expectancy at birth in 1996 reached 55.6 years for males and 58.6 years for females, which is among the lowest in the ESCWA region.

Total population is estimated to reach 18.3 million in the year 2000, 26.1 million by the year 2010, and 31.9 million in 2016, i.e. almost double the 1997 population figure.

The distribution of the country's population by age groups indicates that 47.1 percent of the total population were below age of 15 years in 1996 (table 14). This ratio is projected to drop to 45.2 percent in the year 2016. In the age group of 15 - 64, the percentage was 49.2 percent in 1996, and is projected to grow to 52.4 in 2016. This percentage indicate high dependence ratio in the country.

Table (13)
Demographic Indicators in the Republic of Yemen during the period 1990 -1997

Item	1990	1991	1992	1993	1994	1995	1996	1997
1- Total population (000)	12860	13337	13829	14341	14871	15421	15961	16520
2- Mid year population growth rate (percent)	-	3.7	3.6	3.7	3.7	3.7	3.5	3.5

Source:

1) The Republic of Yemen, Ministry of Planning and Development, Central Statistical Organization, Statistical Year Book, 1996.

2) The Republic of Yemen, Ministry of Planning and Development, Central Statistical Organization, Population Projection in the Republic of Yemen (1994 - 2031).

Table (14)
Proportion of population in broad age groups by projection period

Year	Age 0 - 14	Age 15 - 64	Age 65+
1996	47.1	49.2	3.7
2001	46.6	50.4	3.0
2006	47.4	50.0	2.6
2011	46.8	50.8	2.4
2016	45.2	52.4	2.4

Source : Republic of Yemen - Ministry of Planning and Development, Central Statistical Organization, Statistical Year Book 1996. p.22.

2. Education

The government has given education a high priority to reduce the currently high illiteracy rate (55.8 percent in 1994), and upgrade its human resources development. For this purpose, the government increased its expenditure on education during the last few years. Even during the implementation of SAERP, spending on education has not been reduced, as a percentage of total current expenditure, it has increased from 17.2 percent in 1990 to 19.3 percent in 1996. As a result of these efforts, there has been a sharp increase in the number of students at different educational levels. The number of students at the basic education (primary level) rose from 2076138 in 1990 to 3092335 in 1995 (table 15), representing an increase of 48.9 percent at the secondary level, the number increased by 161.8 percent, while at higher education (university) the number rose by 153.8 percent.

However, public investment in education, which rose from 8.1 percent of total public investment in 1990 to 11.6 percent in 1991, before falling to 5.4 percent in 1995.

Government strategy in education:

The main objectives of the government strategy in education developments are :

1. Providing access to all students at the basic education, and encouraging students to enroll in technical and vocational education to increase the percentage of technical and vocational education from 6.7 percent of the total enrollment at the secondary level in 1990 to 12.0 percent in the year 2000.

2. Improving and upgrading education programmes and curricular and retraining of teachers at different education levels.

3. Encouraging female education, particularly in the rural areas, to increase the percentage of females particularly at the basic education, which did not exceed 28.1 percent in 1996.

4. Developing and upgrading of technical educational institutes and those for the vocational training.

5. Encouraging and promoting measures to reduce the current high illiteracy rate.

Problems and Constraints:

a. Lack of infrastructure, particularly the number of schools. Owing to insufficient number of schools, classes becomes very crowded and in some schools, the number of student per class at the elementary level exceeded 100 students, which has negatively affected the quality of education.

b. Insufficient number of human resources particularly teachers.

c. High level of dropouts, particularly at the secondary level, which has negatively affected the quality of education and would hamper the government efforts to reduce the illiteracy rate.

d. Low level of participation of female at different educational levels. For example in 1996, the ratio of female students at the basic level of education did not exceed 28.1 percent, and only 20.0 percent at the secondary level.

e. Insufficient investment in the education sector. The public investment has dropped during the last few years despite the priority given to this important sector.

Table (15)
Education Indicators during the period 1990 and 1995

Item	1990	1995
A- No. of Students		
1 - Basic (or primary)	2076138	3092335
2 - Secondary	122500	320759
3 - Technical Education	7758	19303
4 - University	42216	107128
B- Education Expenditure as percentage of total current expenditure	17.2	19.3
C- Investment on education as a percentage of total government investment	28.9	9.8

Source: The Republic of Yemen, Ministry of Planning and Development, The first Five-Year plan for Economic and Social Developments(1996 -2000).

3. Health Services

Despite the noticeable improvement in the health services, there is still need for the expansion, upgrading and development of the these services, particularly the basic health services. The improvement in the health services is the major factor behind the drop in the infant mortality rate.

As an indicator to the improvement in the health services, the number of hospitals rose from 74 in 1990 to 81 in 1995, and the number of beds rose by 15.0 percent to 9169 in 1995 up from 7970 in 1990 (table.16). The number of health centers also rose from 390 to 395 during the same period.

In addition, the number of doctors rose from 2708 in 1990 to 3812 in 1996, while the number of dentist increased from 144 to 258 during the same period.

The total number of the labor force in the health sector rose from 13900 in 1990 to 14555 in 1996.

The government's expenditure on health services remained almost unchanged during 1990 - 1996 period. As percentage of total current expenditure, health expenditure rose from 4.0 percent in 1990 to 4.4 percent in 1996. Public investment on health services rose from 2.1 percent of the government public investment to 5.0 percent in 1991, reflecting investment made to absorb the returnees from the Gulf owing to the Gulf Crisis. Investment on health services as a percentage of government investment dropped thereafter, and by 1995, the share was only 1.6 percent.

The government strategy in area of health services, is based on the following objectives:

1- Reducing the death rate, and improving the life expectancy at birth to 60 years by the year 2000, from the current level of 58.8 years.

2 - Reducing infant death ratio from its current level of 83 per thousand to 60 per thousand by the year 2000.

3- Increasing the percentage of coverage of primary health care from its current level of 45.0 percent to 60 percent by the year 2000.

4- Constructing of 34 hospitals in the rural areas, 168 health centres and 674 health units in various governorates.

5- Establishing of heart center and high center for medical specialization.

Problems and Constraints:

1- Lack of health infrastructure, particularly in the rural areas.

2- Inadequate human resources, as reflected in low number of doctors and nurses.

3. High population growth rate, which put severe constraint on health services, particularly in the rural areas.

Table (16)
Health Indicators between 1990, 1995 and 1996

Item	1990	1995	1996
1- No. of Hospitals	74	81	NA
2- No. Health Centres	390	395	NA
3- No. of Beds	7970	9169	NA
4- No. of Doctors	2708	NA	3812
5- No. of Dentist	144	NA	258
6- No. of Nurses	6430	NA	4823
7- Government Expenditure as percentage of current expenditure	4.0	3.6	4.4
8- Investment on health services as percentage of total public investment	2.1	1.6	NA

Source :

1) The Republic of Yemen, Ministry of Planning and Development, The first Five-Year Plan for Economic and Social Developments (1996 - 2000).

2) Republic of Yemen, Ministry of Planning and Development, Central Statistical Organization, Statistical Year Book, 1996.

V. RECOMMENDATIONS

1- The Government of Yemen should continue its economic reform programme aimed at correcting macro-economic imbalances, reactivate and speed economic growth, and achieve economic restructuring. This is necessary to pave the way for fast economic growth in the coming years.

2- The Government should continue its current monetary and fiscal policies to achieve fiscal and monetary stability, this represents a major component of the economic reform programme in the country. Realistic exchange rate and positive interest rate are prerequisites for monetary stability. This provide a major incentives to the inflow of foreign capital which is badly needed to bridge the investment - saving gap.

3- The Government should pursue, gradually, the implementation of its privatization programme, to achieve its objectives in promoting economic efficiency, reduce the share of government in production sector, increase the inflow of capital and technology, and widen the public ownership.

4- To facilitate the implementation of privatization process, and increase transparency, the government should consider establishing a stock market.

5- The Government should speed up the formulation and adoption of relevant laws, regulations and institutions required for the transformation to a market economy. In this respect, efforts should be made to speed up the application of the new tax law, customs law, property rights and contract laws, anti-trust legislation, companies law, and consumer protection law.

6- The Government should consider increasing investments in the agricultural sector, including those for water resources. It was observed that investment in the agricultural sector has recently declined, which may affect its growth and development. In this regard, the Government should increase its investment in the fishery sector. The country enjoys one of the richest coast line in different high quality kinds of fish. This gives the country a comparative advantage in the production and exports of fish, which could become a major source of income.

7- In areas of manufacturing, the country should concentrate on activities where it enjoys a comparative advantage and expand manufacturing activities that depends on the local raw materials. The country should apply the latest available technologies, to reduce production cost, and increase efficiency and productivity. Moreover, the private sector should be given opportunities to enhance its contribution in the industrial development. The Government should provide incentives including financial incentives, to promote a long-term investment in this sector.

8- Measures should be taken to reduce the current high level population growth rate. These measures should include the expansion of family planning programme.

9- Measures should be taken to promote investment (including private investment) in social services, particularly since these services have been given high priority during the implementation of SAERP. In addition, recreational and other social services such as sport clubs, cinemas, theater, should be expanded particularly in the rural areas. The quality of social services should be improved, especially in areas of education and health as a first step to promote human development in the country.

10. The Government should take measures to improve statistical data collection and processing.

11. The international community should provide additional economic assistance and long-term concessional loans to the country.

12. International Community should take measures to reduce the country's external debt including conversion of part of debt into development aid.

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