



# ***Diagnostic Trade Integration Study – Overview***

***Prepared by a team working under the auspices of the  
Integrated Framework Program for trade related technical  
assistance for the Ministry of Industry and Trade, Republic  
of Yemen***

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# *Glossary*

ASYCUDA	Automated System for Customs Documentation
DFID	Department for International Development
DTIS	Diagnostic Trade Integration Study
FAO	Food and Agriculture Organization
GAFTA	Greater Arabic Free Trade Area
GCC	Gulf Cooperation Council
GDP	Gross domestic product
GIA	General Investment Authority
GST	General Sales Tax
IF	Integrated Framework
IMF	International Monetary Fund
LDC	Least developed countries
MFTR	Memorandum on the Foreign Trade Regime
MOIT	Ministry of Industry and Trade
PRSP	Poverty Reduction Strategy Paper
PTC	Public Telecommunication Corporation
TA	Technical assistance
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
WTO	World Trade Organization
YCA	Yemen's Customs Authority
YSMQCO	Yemen Standards, Metrology and Quality Control Organization

# *Preface*

In November 2001 following completion of three pilot studies throughout 2001, Yemen became one of four countries to participate in the next round of activities under the Integrated Framework (IF) to facilitate coordination of trade related technical assistance. From February to April 2002 the MOIT as coordinating Ministry worked with the IF team and task manager to prepare a terms of reference and establish working arrangements.

In May 2002 a study team worked to conduct a diagnostic study of Yemen's trade policy and technical assistance needs. Draft reports were circulated to the Steering Committee and members of the Interagency Working Group in August 2002. The overview material was revised for translation into Arabic and circulation to the Steering Committee. Following completion of translation and circulation of this overview and supporting reports, a National Workshop was conducted in Sanaa on 21 and 22 June 2003. The Technical Assistance matrix was revised following the workshop and a report on the workshop follows the summary.

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The technical studies on which this overview report is based — entitled component studies and sector studies are available as technical annexes in English and Arabic.

A translation of the decree establishing the IF Steering Committee is reported in the appendix.

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## *Summary*

Contemporary features of the Yemen economy are documented and thoroughly analyzed in recent Government reports and studies. See for example, the Poverty Reduction Strategy Paper (PRSP), 2002; the Second Five Year Socioeconomic Development Plan, 2001–05; and the Yemen Strategic Vision 2025. The PRSP completed in May 2002 sets out four key policy challenges:

- achieving economic growth;
- developing human resources;
- improving infrastructure; and
- ensuring social protection.

Meeting these challenges will necessarily involve trade and investment or ‘doing business’ with people in other countries.

Trade and investment between people in wealthy developed western economies happens relatively smoothly through converging and long established market institutions. The institutional arrangements in many of the least developed countries are often quite different from these emerging norms. In some cases these arrangements were built for planned economies; in other cases, including Yemen, their development has been set back by political and social upheaval as well as internal conflicts.

The Integrated Framework (IF) for trade related technical assistance for trade development in least developed countries was established at the WTO High Level Meeting in 1997 in Geneva. The first stage of the IF process involves a Diagnostic Trade Integration Study (DTIS). The purpose of this DTIS for Yemen is to identify just how donors can help Yemen integrate into the international trading and investment system.

Donors can help primarily by assisting with the institutions, processes and human skills needed to administer policy fairly and competently. Yemen’s formal trade and regulatory regime is not the main obstacle to international trade and investment. Rather, the priority is to increase investor confidence in the institutional arrangements for developing and administering policy. Areas of high priority are macroeconomic

management, investment regulation, decentralization and privatization. The highest priority is the development of institutions underpinning the protection and utilization of property rights. This study diagnoses the strengths and weaknesses in these areas, reports on existing technical assistance activities and identifies priorities. The study also canvasses policy issues and technical assistance priorities for particular sectors including tourism, labor exports, telecommunication, fisheries and agriculture.

**P**overty reduction requires growth (the first pillar of the Government's poverty reduction strategy). Growth requires investment which in turn requires macroeconomic stability, financial sector efficiency and profitable investment opportunities. Surveys of investors in Yemen indicate that concerns about macroeconomic instability inhibit investment. Macroeconomic management of oil revenues poses special problems because they tend to fluctuate, and because they are such a large share of Government revenues. Over the next few years Yemen's oil revenues are more likely to fall than to rise.

**F**iscal balance is vulnerable and has been achieved through the good fortune of recovering oil revenues and not by way of the pain of expenditure cuts. Some subsidies that were cut are now reappearing because they are based on differences between domestic and international prices. The PRSP maps out approaches to adjusting to declining revenues. The scope for raising more tax revenue is limited by a fragile tax base. Important improvements in tax administration (such as a taxpayer identification system and computerized registration) are helping make taxation less of a negotiated contribution and more a payment based on objective income measures. Although customs administration has been strengthened in recent years, the scope for boosting trade tax revenue is limited due to the existence of exemptions, the well established channels for illegal trade and the incomplete state of customs reform. On the expenditure side, considerable efforts are being devoted to civil service reform and to the sale of loss making enterprises, but both activities are proceeding slowly relative to the scale of budget adjustment which could be needed. Priority areas for donor cooperation are ongoing support for civil service reform, taxation reform, budget strategies to deal with revenue instability and better targeting of spending on infrastructure and human resource development.

**F**ormal regulatory arrangements are much improved, but not enough to stimulate investment by foreigners or Yemenis. The impact of insecurity concerns on investment is only part of the story. Regulations might have improved but according to investor surveys, their application

and administration apparently has not. Investors are also deterred by insecure property rights. A new foreign investment law was passed in Parliament in July 2002. The new law replaces licensing with simplified registration procedures, reduces the regulatory functions of the Investment Authority and provides for the Council of Ministers to amend certain provisions relating to price and standards regulation. The new law continues to have both strengths and weaknesses. Its strengths include equal treatment of foreigners and domestic investors and protection against nationalization. Its continuing weaknesses include reliance on tax holidays, and exemptions from customs duties.

**L**and, labor and capital markets face problems. Documentary evidence of land title is a relatively recent phenomenon and land disputes are common. The labor market contains controls on hiring through the Ministry of Social Affairs and Labor, on the termination of contracts and mandatory provision of training. Constraints on access to credit is a serious impediment to investment and the main cause of credit market failure appears to be problems in the judicial system which make it difficult to take loan defaulters to court. Thus banks tend to lend within a closed circle of established firms where loss of reputation is a sanction against default. Parts of the banking system are seriously hampered by problems of non performing loans. Priority areas for donor cooperation include continued strengthening of commercial courts, and exposure to consultation and arbitration systems in other countries. Banking sector technical assistance needs include building of appropriate systems for regulation and supervision.

**D**ecentralization is being pursued and in early 2002, the Government began to implement the local authority law setting out increased responsibilities and revenues for local administrations. However administrative capacities at the local level are weak and the allocation of tasks and revenues between different levels of government is still in progress. Private sector firms are concerned about the quality and allocation of public sector resource use and related processes of transparency and accountability. The community appears to lack confidence in the capacity of the Central Commission for Control and Audit to provide independent monitoring of government activities. The House of Representatives itself could be better resourced. Donors could help with technical assistance to build up capacity in local administrative units and with exposure to systems used to involve the parliaments in legislative development and oversight of government functions in other countries.

**P**rivatization of some state enterprises would take the pressure off the budget and help move resources into private competitive markets where they would be used more efficiently. The High Committee for Privatization has privatized only a few small firms. Firms bidding for government enterprises are required to submit two offers — a financial and a technical offer. Technical offers contain commitments such as maintaining employment or maintaining location and output. Such offers often reduce the value of the bid and limit the opportunity for efficiency improvements. Stockmarket development would help with privatization and steps to establish a stockmarket are in train. But a stockmarket is unlikely to work well while there is lack of confidence in the legal system and while independently audited information about firms is not available. These problems would undermine its attractiveness to foreign investors, whose participation would greatly boost the efficiency gains derived from privatization. Priority areas for donor cooperation include exposure to international best practice with respect to specifying and evaluating bids, along with establishment of reporting and audit procedures in publicly owned corporations.

**T**rade barriers were reduced substantially with the economic reform program introduced in 1995. Compared with the barriers imposed by many large, developed and longstanding members of the WTO, Yemen's formal trade regime is relatively open. There is a four band tariff with a top rate of 25 per cent, no specific rates or export taxes apply and there are only a few quantitative and prohibitive controls. The beneficial effects these trade liberalization steps have had for Yemen's people are not widely understood and appreciated by business people and the public at large. A priority issue for donor cooperation is the objective evaluation of the full set of benefits and costs of trade liberalization and help with establishing techniques and processes for evaluating ongoing proposals for policy change.

**E**xporters, unprotected import competing sectors and consumers still bear some costs from the trade regime. Exporters have access to a duty rebate scheme but it does not appear to work well. Free trade zones are another option and a zone has been established at Aden. Preferential trading agreements exist with Saudi Arabia and Iraq. The Government is also pursuing membership of the Gulf Cooperation Council (GCC), and in 2002 joined GCC bodies dealing with education, labor, sports and health. GCC members have agreed to form a Customs Union with a common external tariff of 5 per cent. Yemen is also considering membership of the Greater Arabic Free Trade Area (GAFTA). Donors could help assess the costs and benefits from regional initiatives, especially GCC involvement.

**W**orld Trade Organization (WTO) accession was formally applied for in July 2002, and Yemen submitted its Memorandum on the Foreign Trade Regime (MFTR) on ..... 2002. As at June 2003 the MOIT had received 167 questions on the MFTR. The MFTR is the responsibility of the National Committee for preparation and negotiation with WTO supported at the technical level by the Communication and Coordination Office with the WTO in the Ministry of Industry and Trade (MOIT). The many changes in the trade regime, the lack of precedent and the need to work in two languages all made preparation of the MFTR a substantial task. However the payoff in terms of domestic policy transparency are significant. As negotiations proceed Yemen will probably be asked by other countries to bind its tariff schedule at existing rates. A ceiling imposed in this way would have advantages and disadvantages. An advantage would be the defence provided against subsequent tariff increases. But a disadvantage would be that in the event that the Government came under pressure to raise protection it would have to resort to measures that might be less transparent and more inefficient than tariffs. Donors are already providing support for WTO accession and this remains a priority. Other priorities include building a capacity across ministries for assessing trade policy on its merits and not simply whether the policy measure would be WTO legal or not.

**W**TTO accession processes will also require considerable building of 'behind the border' institutions. Some measures such as opening key infrastructure services including telecommunications and financial services such as insurance are likely to be high priority for Yemen. But the requirements for WTO membership are unlikely to be equally relevant and for Yemen and to 'try to do it all at once' would be impractical. For example, reforms to intellectual property law and the building of intellectual property law enforcement mechanisms are not of the highest priority given existing capacities. Donor support should help Yemen focus on its limited capacities on institutional and other economic reforms essential for growth and development, while meeting WTO requirements. WTO members should also provide sufficient flexibility in Yemen's accession to do so, while still maintaining essential reform disciplines.

**T**rade transaction costs are high. As a result, a considerable amount of economic activity is informal. While informal activities can be a way of coping with oppressive regulation, it is not an efficient way of conducting trade. Donor cooperation should help build administrative and regulatory processes which encourage people to do business above ground and in the formal economy.

**Y**emen's Customs Authority (YCA) faces many pressures. Long land and sea borders, low pay and civil service regulations restrict flexibility of work practices and financial management. Remote border posts can lead to inconsistent interpretation of customs law and practice. And a complicated system, which exempts goods from duty according to the nature of the goods and the identity of the importer, involves considerable administrative discretion. In light of these difficulties the achievements of the YCA in recent years are significant. These achievements include the installation of the ASYCUDA electronic data processing system that has delivered impressive improvements in processing time and an all round increasing professionalization of customs operations. Contemporary challenges for the YCA and continued donor support include the need to reduce documentation demands in keeping with the requirements of an electronic system, and a restructuring of staff and processes utilizing modern practices of decentralized electronic lodgment and inspection of goods based on well informed risk analysis.

**S**tandards authentication on the export side is moving towards self testing and commercial testing in the case of fish exports. But there still appears to be overlap and duplication. On the import side the Yemen Standards, Metrology and Quality Control Organization enforces conformity of imported goods. The inspections involved duplicate customs work and raise opportunities for informal payments.

**F**ree Trade Zones and industrial estates can be a way of delivering reliable infrastructure services and effective regulation to firms on a targeted basis. The lessons of experience are mixed. In some countries, for example South Korea, Malaysia and Taiwan, good regulation within zones was achieved. In other cases — Jamaica and the Dominion Republic for example — the lesson appears to be that if regulation and administration in the country at large is poor, then it is not realistic to expect a better performance within a zoned part of that country. Indeed the sharply differential treatment available to firms within and without a zone can create incentives for further rounds of illegal activity. Yemen's main free trade zone is at Aden. The Yemen Public Free Zone Authority is responsible for developing and managing this site. The Authority has contracted with a company called Yeminvest (60 per cent owned by the Singapore Ports Authority) to run the Aden container terminal. While the terminal is apparently performing well, the Free Trade Zone has not performed to expectations. Most land remains undeveloped and there appears to be overlapping and inconsistent jurisdiction over zone activities. Like decentralization, one of the in-principle benefits of industrial and free zones is to put decision making closer to the people who bear the costs and take the benefits. Drawing on relevant lessons from other countries, donors

can help Yemen find the appropriate mix of centralization and decentralization and with mechanisms and processes for the cooperative conduct of policy by different layers of government.

**P**overty monitoring and analysis is conducted in the Central Statistical Organization with UNDP support. Some 18 per cent of Yemen's population cannot afford minimum calorie requirements and about 42 per cent of the population lives below a poverty line defined in terms of a commodity basket containing both basic foodstuffs and non-food goods. For most of the rural population agriculture is the main source of income. Modeling using household budget data indicates that an improvement in agricultural productivity would benefit households through better access to that part of production which is self consumed and through increased sales. Larger producers would do better on both counts. Wages do not appear to increase much.

**W**omen are less involved in the formal labor force than men. In urban areas 11.5 per cent of women of working age participate in the labor market compared with 68 per cent for men. In rural areas 25.9 per cent of women actively participate in the labor force compared with 70 per cent of men. Women are responsible for around 70 to 75 per cent of all agricultural activities. They play an essential role in food production and livestock raising. Males tend to be responsible for marketable crops on irrigated land. Most extension services are aimed at irrigation activities rather than the livestock activities where women do most of the work. A model simulation of an increase of women's labor market participation of 50,000 indicates that such an increase would have a pro-poor effect significantly increasing the income of households in lower deciles.

**F**isheries wealth in Yemen is considerable and fishing provides a livelihood for some 400,000 people. Fish exports have grown rapidly. Yemen's fishing fleet comprises industrial boats, which operate under licence and take about 20 per cent of total annual catch, and small scale fishing boats which are largely unregulated and take about 80 per cent of total catch. While information on both the stock and level of fishing effort is weak, there are concerns that the fisheries of greatest value are under pressure. These pressures reflect weak management, surging export demand arising from depletion of other major international fisheries, assistance to small scale fisheries by way of inputs and infrastructure and continuing high levels of industrial fishing boat activity. Sale of industrial licences appears to have been conducted on an individual negotiation basis before 1996. While this approach had the advantage of allowing authorities to test what the market would bear, they provided little transparency and fuelled perceptions that not all revenues went to the Government.



Exchanges of industrial licences at higher prices in early 1999 encouraged the Government to raise prices and at the same time change the formula for sharing marginal increases in catch. Policy development is centred around the Ministry of Fishweath and local cooperatives including an emerging union of cooperatives. The Ministry of Fishweath is still responsible for several canneries as well as some fisheries marketing and production agencies. Priorities for donors include helping the Ministry move out of these functions which could be undertaken by private firms and focussing on stock measurement and fisheries management, including devolving management to local levels, and with extension and research.

**T**ransport services in Yemen are mixed. Its ports are good, air services are adequate and road services are poor. In the case of road transport, poor roads, combined with a transport cartel for goods and a highly regulated bus passenger service, mean poor services and little incentive to invest in either roads or vehicles. Regulation of road freight involves high costs, unreliable service and irregular work and low incomes for truck owners and drivers. The Government is tackling these weaknesses in the existing system. The challenges for Yemen and donor support include the need to develop modern regulatory arrangements along with transport logistics systems and road maintenance funding.

**T**elecommunications in Yemen are not widely spread throughout the whole country with telephone services available to only 3.46 per cent of the population. Though this figure is low in comparison with other countries at a similar stage of development it represents a considerable improvement over the last five years. Mountainous terrain and a scattered population make delivery of telecommunication services in Yemen especially challenging. Currently fixed line services are provided by the Public Telecommunications Corporation (PTC) which is responsible for the operation maintenance and development of the national communication network. The Ministry of Communications owns the PTC and is responsible for supervision and regulation of services. International services are provided by TeleYemen, a joint venture statutory monopoly between British Cable and Wireless and the PTC. The Government issued licences through international tender for two companies to establish GSM services. Donors could help with support with spectrum management and regulatory affairs.

**T**ourism is a sector with considerable potential given its world wide growth and the abundance of unique scenic and historical attractions in Yemen. Despite concerns about personal security, numbers of tourists going to Yemen continue to rise steadily. The main barriers to more rapid growth are continuing security concerns, high costs of air transport, both

internationally and domestically, and the lack of tourist services particularly in cultural regions located far from the cities. Developing tourism will require expenditures on facilities and infrastructure in selected areas and promotional programs. Private sector firms can do much of this but some activities may be appropriate targets for funding from donors. Projects targeting restoration and preservation of historical buildings, and support of regulatory regimes to ensure preservation of environmental, cultural and historical amenities are possibilities.

**A**griculture employs about half of Yemen's population and sustains the livelihood of three quarters. Water is a limiting resource. Most irrigation is by tube-wells and the rest is by traditional terrace systems. Agricultural exports are modest and coffee, fruit and vegetables are the main products. Water management is a core issue with aquifers for both urban and agricultural use being used at unsustainable levels. Some solutions are emerging. Subsidies for diesel pumps are being reduced, markets for water are emerging and local user groups with a direct interest in sustainable management are being formed. These responses need to be supported with practical means of establishing and enforcing title over the water resource.

**Q**at production and consumption is a rather special feature of Yemen's agriculture and society. Qat is a leaf with mild amphetamine properties used by many people as a form of social engagement. Qat production makes up around 44 per cent of the total value of agricultural production. Qat production employs many people, sustains many households and the revenues provide a source of savings for investment in other activities. Qat production uses considerable water but so might any other profitable crop and in this sense the issue is one of water management and water pricing. Reflecting the large place of qat in the Yemen economy the Government organized a policy workshop in early 2002 to discuss policy options for qat. Well informed papers covering a range of views were presented in an open and transparent fashion. The rapid expansion of qat production indicates the capacity of Yemen's investors and people to respond quickly to profitable opportunities when they become available. And the April public workshop indicates the determination of Government to work through complex issues on the basis of full information and transparency.

**L**abour remittances at around \$1 billion per year mean that Yemen is as much a remittance economy as it is an oil economy. Despite the fall in Yemenis working abroad following the Gulf war, remittances have held up well. Moreover, this figure is based on general estimates and does not count the almost certainly substantial flows of cash and goods sent home by overseas workers. One explanation for the maintenance of remittance

income is the change in measurement base following unification to include people from southern provinces who tend to be merchants, contractors and bankers. Another explanation is that liberalisation of the foreign exchange market has created incentives for migrants to remit transfers through the banking system. Conditions of labor demand in neighboring countries play an important role in shaping labor movements. The reputation and networks established by Yemeni workers over the years are likely to be important reasons for the sustainability of these incomes. But another important reason why so many Yemeni people seek opportunities outside the country is the limited opportunities for them to find work at home. Actions on the regulatory environment for investment are important to ensure productive use of remittances. With respect to policies towards labor remittances in particular the challenge is to remove impediments to movements of people and remittances. A recent decision making it legal for private sector firms to participate in labor recruitment is a positive step. Modeling of the effects of remittances conforms their role as informal safety nets. Remittances seem to increase when households suffer adverse shocks, and go through lifecycle events such as new born children and aging.

# Technical assistance matrix

## 1.1 Technical assistance matrix

<i>Observations/Objectives</i>	<i>Type of action</i>	<i>Agencies responsible/external support</i>	<i>Time frame</i>
<i>Macroeconomic policy</i>			
Need to broaden revenue base to reduce dependence on oil	Review of tax system	MOF/Fiscal Affairs Department of IMF	Short-term
	Develop budget strategies to deal with revenue variability	Central Bank	Short-term
Need for better intermediation between borrowers and lenders <ul style="list-style-type: none"> <li>▪ financial sector reform</li> <li>▪ judicial enforcement</li> <li>▪ ill defined property rights</li> </ul>	Develop sound payment and banking system		Short-term
	Judicial reform including coordination of donor activities	Netherlands assistance	Medium-term
	Land titling and property rights development		
<i>Trade policy</i>			
WTO accession proceeding well but government resources are severely stretched	Continue ongoing assistance with Yemen's legislative reform under WTO accession	Ministry of Industry and Trade. Other Ministries. Private sector stakeholders, Chambers, industry associations, civil society	Short-term
		European Union, WTO, World Bank	
		Ministry of Planning, private sector stakeholders	Medium-term
Accession implications not well understood in private sector and hence viewed with suspicion	Ensure that training and workshops involve people inside and outside government: <ul style="list-style-type: none"> <li>▪ industry groups</li> <li>▪ Parliament</li> <li>▪ civil society</li> </ul>	MOIT/WTO, World Bank Institute, EU pending program	Medium-term and long-term

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## TECHNICAL ASSISTANCE MATRIX

## 1.1 Technical assistance matrix (continued)

<b>Observations/Objectives</b>	<b>Type of action</b>	<b>Agencies responsible/external support</b>	<b>Time frame</b>
WTO accession activities need to be complemented with a capacity to analyze and evaluate trade policies on their merits	Build on international and private sector consultative processes established during preparation of the MFTR and the IF Diagnostic Study process	MOIT, MOF, MOP, sectoral Ministries	Medium-term
	Establish capacities for evaluation and dissemination of impacts on wider community of different trade policy options	MOIT, MOF	Medium-term
	Establish main components of smuggling and shadow economy	Customs, MOF	Short-term
	Build capacity to analyze and explain impacts of WTO agreements - services, standards and intellectual property	MOIT	Long-term
Prospects for regional and bilateral arrangements offer considerable promise but carry some risk	Conduct detailed analysis of benefits and costs of closer integration with GCC and GAFTA	MOIT	Medium-term
Benefits from preferential access provisions not greatly exploited	Explore and expose beneficial trade arrangements by market and community	MOIT/YESC/UNCTAD	
Export development agencies not well equipped	Build up capacity to provide and interpret relevant market information	Supreme Export Council/ITC	
	Training services for exporters and marketing firms	Supreme Export Council/ITC	
<i>Investment regulation/Governance</i>			
Overriding lack of confidence in property rights, judiciary and civil service	Continue support strengthening of judicial reform	Ministry of Justice/the Netherlands	
	Continue to support strengthening of commercial courts	Ministry of Justice/World Bank	
	Strengthen capacity for land titling and cadastral surveys	Ministry of Public Works/Netherlands	
Yemen conciliation and arbitration centre a promising private sector institute	Technical assistance by way of exposure to similar centres in other countries		
Lack of confidence of investors in administration of regulation	Continue to support civil services reform	Ministry of Planning/World Bank	
Decentralization implementation needs to clarify roles and revenues between local and centre needs			
Investment law sound in many respects but tax holidays and exemptions still cause problems even following reform of July 2002	Support processes and system to build capacity in governorates	World Bank/donors	Medium-term
	Estimate investors' valuation of concession	GIA/World Bank	
Weak delivery of public services - infrastructure, utility services and human resources	Better public investment planning and review processes	MOF/Ministry of Planning	

(Continued on next page)

## TECHNICAL ASSISTANCE MATRIX

## 1.1 Technical assistance matrix (continued)

<i>Observations/Objectives</i>	<i>Type of action</i>	<i>Agencies responsible/external support</i>	<i>Time frame</i>
<i>Trade facilitation</i>			
Yemen Customs Authority making substantial improvements in performance but more support needed		YCA, DFID, UNCTAD	Short-term
	Continue to support capacity building in Yemen Customs Authority especially involving extension of ASYCUDA	YCA	Short-term
	Reduce paper transaction requirements	YCA	Short-term
	Restructure to reflect electronic data processing	YCA	Long-term
	Expand capacity to inspect before and after goods cross the border	YCA, MOF	Medium-term
Unnecessary barriers applied to enforce import and export standards		YSMQCO	Medium-term
	Formalize risk analysis based on inspection	YCA, YSMQCO	Medium-term
	Remove unnecessary duplication with YCA, YSMQCO and Ministry of Interior		
Unnecessary barriers to entry in provision of trade related services	Assess impact of barriers to entry in insurance related services		Medium-term
	Assess impact of barriers to entry in domestic and international air freight services		Medium-term
	Assess impact of regulation of road freight	Ministry of Transport, Ministry of Fishweath, World Bank with DHRD Grant	Short-term
Free Trade Zone in Aden developing slowly	Clarify roles and responsibilities of various agencies involved and establish clear lines of conduct and reporting	Yemen Public Free Zone Authority, EU project being prepared	Short-term
Other Industrial and Free Zones being contemplated	Test reasons why an industrial zone configuration would attract investment over existing land and infrastructure services	Ministry of Planning, World Bank supporting feasibility design work with PHRD assistance	
	Assess role of industrial zones as a means of demonstrating best practice regulation		
<i>Poverty analysis</i>			
Considerable resources devoted to measuring poverty indicate high levels of poverty			
Poor people vulnerable to unsustainable water management and unsustainable fisheries management	Assess impact of diesel pricing on water use. Explore other methods of water management.	Ministry of Water Resources	Short-term
	Assess impact of input and infrastructure support on fishing effort, fish supply and domestic prices	Ministry of Fishweath	Short-term

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## TECHNICAL ASSISTANCE MATRIX

## 1.1 Technical assistance matrix (continued)

<b>Observations/Objectives</b>	<b>Type of action</b>	<b>Agencies responsible/external support</b>	<b>Time frame</b>
<i>Sector studies - Fisheries</i>			
Managing fisheries. Evaluating and monitoring the storage.	Making surveys on the main four kinds: pen fish, lobster, tuna and shrimp. Making study to find out the way to develop the domestic capacity in fisheries researches. Numbering and permitting traditional fishing boats. Reporting data of traditional fishing production. Increasing fees of industrial fishing.	Ministry of Fisheries. Hadhramout University. Ministry of Planning and International Cooperation. Donors.	Short and long term (two years)
Transportation and quality monitoring: sea and air transportation and quality monitoring.	Studying the options in coordination with the Supreme Council of Exports. Making study on the high coasts (freightage coasts). Appointing an expert in airfreight by the council of exporting fisheries companies in coordination with civil air navigation authorities. Supporting the activities of the technical bodies of the Supreme Council for Development Exports. Making a study that drafts a long strategy with the Ministry of Industry and Trade to complete the effectuation of the second stage of the quality laboratory concerning airfreights that are liable to damage. The Ministry should give a design of a big location in unloading frozen and fresh fisheries. Searching for a financing source for the study of UNIDO.	Ministry of Fisheries. Ministry of Industry and Trade. The Supreme Council for Export Donors.	Short term
Trade and managing the sector	Drafting a work program for developing this sector and reconstructing the strategy of trade that locates the objects of reconstructing this sector. Rehabilitating the program of reconstructing with a contribution concerning management and organisation, and another contribution concerning the presentation of consultations in fishery companies field.	Ministry of Fisheries. Donors.	Short term
Institutions	Performing researches and making a plan by organising expert team to develop and reconstruct the Ministry. Establishing a National Council for fisheries.	Ministry of Fisheries. Cooperative Union. Donors.	Medium term
The infrastructure and technology	Preparing a project for collecting essential data and making environment evaluation, and preparing an evaluation continual social and economic study for the infrastructure utilities.	Ministry of Fisheries. Donors	Medium term
Fisheries exports important and expanding raising concerns about sustainability of resources	Establish capacity to collect and analyze information on fisheries stocks (by fishery) and impact of fishing effort at current levels Assess impact of input support on fishing effort  Assess resource stock and impact of industrial fishing boats as inputs into the design of a transparent method of selling licences Assess structure of Ministry of Fishwealth services for extension and research	Ministry of Fishwealth  Ministry of Fishwealth Ministry of Fishwealth	Medium-term
Traditional management systems at local level weakened by technology change, diminishing role of cooperatives and interventions from the centre	Explore ways of strengthening the role of local agencies such as cooperatives in management and marketing	Association of Cooperatives/FAO	

(Continued on next page)

## TECHNICAL ASSISTANCE MATRIX

## 1.1 Technical assistance matrix (continued)

<i>Observations/Objectives</i>	<i>Type of action</i>	<i>Agencies responsible/external support</i>	<i>Time frame</i>
<i>Sector studies - Transport</i>			
Facilitating the arrival into the rural areas.	Widening the road net, repairing and promoting the existed roads.	Ministry of Constructions. Donors.	Long Term
Preventing monopoly in goods transportation.	Issuing legislation and laws in order to facilitate trade movement.	Ministry of Transportation.	Short Term
Increasing the ability of transporting people.	Merging the private sector.  Evaluating the constraints facing the merging process of the private sector in providing transportation services.	Ministry of Transportation.	Short Term
Providing auxiliary services for transportation.	Preparing relevant studies, such as locating places of trucks gathering outside cities.	Ministry of Transportation. Traffic Authority.	Short Term
Promoting civil transportation.	Making a study about civil transportation in the main cities.	Traffic Authority.	Short Term
Promoting the products transporting process, from producing centers to consumption and exporting centers.	Making relevant studies.	Ministry of Transportation. Ministry of Agriculture and Irrigation. Ministry of Fisheries.	Short Term.
Replacing old vehicles and trucks new ones to be used in transporting goods and people.	Preventing the importing of old and second hand vehicles.  Searching for financing sources for the replacement process.	Ministry of Transportation. Ministry of The Interior. Custom Authority.	Short Term
Allowing and attracting the private sector to merge and invest in air transportation.	Permitting the establishment of new airlines companies for both goods and travelers.	Ministry of Transportation	Medium Term
Promoting land services in airports.	Issuing laws and rules to reduce the charges of land services.	Ministry of Transportation. General Authority of Civil Air and Meteorology.	Short Term
Developing services in seaports.	Reviewing services' charges.	Ministry of Transportation	Short Term
Encouraging the private sector to invest in seaports.	Issuing legislation and offering facilities.	Ministry of Transportation. General Investment Authority.	Short Term
Many obstacles to a modern accessible transport system which would enable people in isolated and usually poor communities to join the wider economy and society	Develop rural access roads	Ministry of Public Works and Urban Development, World Bank	Short-term
	Identify sources of barriers to road freight transport including the Ferzah and mandatory pricing regulations of MOT	MOT, Supreme Export Promotion Council	Short-term
	Assess sources of barriers into public road transport provision		
	Assess sources of barriers into the provision of road freight		Short-term
	Explore applications of freight logistics system		

(Continued on next page)



## TECHNICAL ASSISTANCE MATRIX

## 1.1 Technical assistance matrix (continued)

<i>Observations/Objectives</i>	<i>Type of action</i>	<i>Agencies responsible/external support</i>	<i>Time frame</i>
Air freight services out of Yemen unreliable and passenger focussed	Test regulations and barriers to entry for international freight services		Medium-term
Public passenger services adequate for local taxi services but barriers to entry in long distance bus transport	Identify barriers to entry and propose alternative regulatory arrangements which allow for greater competitive	MOT	
<i>Sector studies - Telecommunications</i>			
Developing telecommunications and information technique sector.	Supporting the Ministry of Telecommunications and Information Technique in establishing independent systematic authority of telecommunications and information technique and regulating the use of frequency.	The Ministry of Telecommunications and Information Technique. - Donors.	Short Term
Strengthening the spread of internet use and its utilization.	Supporting the use of the internet means in the education sector, and the programs for establishing the electronic government.  Supporting the qualification and training of cadres in this respect.	The National Committee of Information Technique. The Ministry of Telecommunications and Information Technique. Donors.	Medium Term.
<i>Sector studies - labor services</i>			
Decreasing the aggravation of worklessness, particularly among graduated from training institutes.	Overcoming the obstructions facing domestic and international investment.  Establishing projects for youths financed by facilitated loans.  Removing the restraints upon importing raw materials used in small industrial projects.  Developing public and private employment offices.  Making bilateral agreement between Yemen and neighboring countries to engage Yemeni labor.	Most of the bodies including the Ministry of Planning and International Cooperation, Ministry of Labor and Social Affairs.	
Fitting between education and technical, vocational training outputs on one hand, and the requirements of the labor market on the other.	Reconstructing the recent training centers, and expanding the existence of such centers.	The Ministry of Technical Education and Vocational Training.  Ministry of Education.	
Amending the labor law to fit the social and economic variables and the requirements of joining Yemen into the World Trade Organization.	Removing restraints in the labor law that are limiting the domestic, regional and international investment process.	Ministry of Labor and Social Affairs.	
Reducing the inflating administrative body.	Preparing alteration training programs to equality the overflow labor to establish its own programs.	Ministry of Civil Service.  The Ministry of Technical Education and Vocational Training	
Concerning the displacement process of labor in place of dead and retired cases.	Pensioning off all workers who reach the retirement age, and encouraging early retirement.	Ministry of Civil Service	
The maximum benefiting by the immigrants remittances.	adopting steps that guarantees the use of these remittances in productivity fields which support the national economy.	Ministry of Immigrants.  Relative bodies.	

(Continued on next page)

## TECHNICAL ASSISTANCE MATRIX

## 1.1 Technical assistance matrix (continued)

<i>Observations</i>	<i>Type of action</i>	<i>Agencies responsible/external support</i>	<i>Time frame</i>
<i>Sector studies - Agriculture</i>			
Strengthening the institutional structure of the bodies concerning the development of agricultural exports, and providing these bodies with the technical and material prospects.	Preparing an exhaustive strategy for developing agricultural exports.	Ministry of Agriculture and Irrigation.  Supreme Council for Export in coordination with relative bodies.	One Year.
Overcoming the obstructions that limit the exporting process.	Improving the quality and standards of the Yemeni agricultural exports.	YSMO in coordination with the Ministry of Agriculture and Irrigation.	Two Years
Developing the agricultural marketing and increasing the domestic and international distribution capacities of agricultural products.	Completing the infrastructure of the agricultural marketing, strengthening the guidance and information of marketing services and decreasing the wasted after harvest.	Ministry of Agriculture and Irrigation in coordination with the institutions of agricultural researches, guidance and scientific, agricultural services.	Three Years
Decreasing the risks relating to the non-standing management of water sources, and which are threatening poor people.	Improving the irrigation practices taking into consideration the use of required inputs.	Ministry of Agriculture and Irrigation in coordination with the Ministry of Water Supplies and Environment and relative bodies.	Two Years and half.
Developing and reforming the system agriculture that depends on raining.	Strengthening and improving the agricultural researches and guidance services, and increasing the services provided for irrigation.	Ministry of Agriculture and Irrigation through the General Authority for Agricultural Researches and Irrigation Sector.	Two Years
Strengthening the administrative aspects, reinforcing the rule of the agricultural, social associations and reducing the impact of the central interventions.	Improving the performance of the agricultural, social associations in the administrative and servicing aspects through training and institutional support.	The Agricultural Cooperative Union in coordination with the Ministry of Agriculture and Irrigation.	Two Years and half.
Exploiting the benefits resulting from the priority dealings regulations.	Adopting measures and arrangements, and making studies required for making use of advantages given to less developing countries.	Supreme Council for Export.  Ministry of Agriculture and Irrigation in coordination with the Ministry of Industry and Trade, the Agricultural Cooperative Union and scientific institutions.	One Year
Strengthening the capacity of offering agricultural services, and improving the infrastructure of human resources.	Improving the planning and reviewing processes of agriculture investments in the infrastructure and the agricultural services.	Ministry of Agriculture and Irrigation in coordination with the Agricultural Cooperative Union and relative bodies.	Two Years and half
Bracing the rule of women in the agricultural development process.	Training and qualifying working women in agricultural activities and improving the working environment for rural women.	Ministry of Agriculture and Irrigation.  Ministry of Planning and International Cooperation.  The Agricultural Cooperative Union.	Two Years and half
Reinforcing agricultural productivity and marketing services for small farmers and cooperative associations	Inserting works incubator system in order to strengthen the service demands of targeted parties from small farmers, particularly programs directed towards rural women.	- Ministry of Agriculture and Irrigation.  The Agricultural Cooperative Union.	Two Years

(Continued on next page)

1.1 **Technical assistance matrix** (continued)

<i>Observations</i>	<i>Type of action</i>	<i>Agencies responsible/external support</i>	<i>Time frame</i>
<i>Sector studies - Agriculture</i>			
Subsidies to irrigated agriculture adding to strain on common property water resources	Assess impact of subsidies on incentives to produce different crops	MOF/MAI	Short-term
	Work with local groups to establish water user groups	MAI	Short-term
Traditional rain fed agriculture systems in disrepair	Examine implications of shifting of research and extension emphasis to rain fed systems	MAI	
Weak delivery of agriculture services such as R&D and extension	Restructuring within MAI	MAI/Netherlands (pending)	Long-term
Much of the work done by women but support services tend to go to male dominated sectors - irrigated crops	Support for rural women's department	MAI/Netherlands (ongoing)	Short-term

**REPUBLIC OF YEMEN**  
**National Workshop Report**  
**Yemen Diagnostic Trade Integration Study**  
**Trade Integration in Development Plans and Poverty Reduction Strategy**  
**23 June 2003**

***Introduction***

The Integrated Framework Program has been established during the High Level Meeting from 27-28 October 1997, for technical assistance relating to trade after the announcement of the First Ministerial Conference of WTO in Singapore in 1996 with the aim of enhancing the capacity of the Less Developing Countries to integrate in the global economy. The Integrated Framework also aims to increase the benefit rate for the Less Developing Countries through the technical assistance relating to trade, which is offered through the six international organizations (ITC, IMF, UNCTAD, UNDP, WB, WTO), and also the technical assistance offered by multilateral, regional, and different bilateral sources.

The Republic of Yemen has joined the list of the Less Developing Countries that benefit from the Integrated Framework Program at the end of the year 2001, in the second group of the pilot scheme. A steering committee has been found for the Integrated Framework Program headed by His Excellency the Minister of Industry and Trade. Therefore, a team of international and local experts has prepared a diagnostic study for integration of trade in the middle of the year 2002, under the Supervision of WB. The study defines the procedures that could increase the competitive ability for number of important economic sectors, which are agriculture, fisheries, tourism, transportation, telecommunications and labor. In addition, the study specifies the difficulties facing the development of trade policy, trade's facilitation and investment climate, and also reviews the macroeconomics policies and poverty reduction.

During the preparation of the national workshop, a coordination and cooperation was performed with the WB office in Sana'a, and also with Mr. Sandar H. H. Janssen, Donors' IF coordinator (Second Secretary for Commercial and Economic Affairs in the Royal Netherlands Embassy in Sana'a).

### ***National Workshop Sessions (21-23 June 2003)***

H.E. Mr. Ahmed Mohammed Sofan, the Deputy Prime Minister, Minister of Planning and International Cooperation has inaugurated the activities of the National Workshop on Saturday morning 21 June 2003. He assured on the importance of the Integrated Framework to the coordination of the technical assistance for trade, and stressed on making appropriate recommendations and needed work plan for the implementation of this program. He also sent his appreciation to the international and local experts' team, which prepared the diagnostic study that will be the focus of discussions during the National Workshop.

*First: General Review for the Study (Opening Plenary Session, First day, 21 June 2003):*

The appropriate background about the Integrated Framework of technical assistance for trade has been presented through interpositions Mr. Lendert Solofled, The Chancellor of Foreign Trade in WB, Miss. Ant Blank, The Chancellor in Development Division and Secretary of integrated Framework in WTO, and Dr. SANDY CUTHBERSTON, The Head of international and local team, who prepared the diagnostic Trade study.

*Second: National workshop Sessions (First day 21-June 2003):*

The Important recommendations have been Abridgment during workshop Sessions with full membership in:

1. reiterate review version diagnostic study and present it to steering committee of Integrated Framework program.
2. Add Industrial sector to diagnostic study and also the Impact of Treasury bill on Investment and investors .
3. Working for development private sector and tackle obstacles that meeting either from administration side or related to improve it's contribution for development .
4. Working for overcome constrains of supply and enhancement competitiveness capacity for Increase Exports and access to International Markets.
5. Enhancement of Institutional building for foreign Trade.
6. Giving priorities to local and foreign Direct Investments and reform the conducive environment to attract them such as Judiciary and the ownership of land, Financial Transaction, customs, and taxation.
7. Administrative reform In Civil Service, particularly, regarding redistribution of labor force on local units with providing incentives to achieve this objective.

*Third: The working Sessions for break out Groups: (the second day 22-June 2003)*

Completed results of sectoral Sessions works for agriculture, Fisheries, tourism, transportation, telecommunications, and labour. In the frame of proposed action plan. See revised technical assistance matrix.

*Fourth : Implementation plan (proposed steps)*

To be complete review the Implementation in the next 6 months. See table 1.2.

## TECHNICAL ASSISTANCE MATRIX

## 1.2 Implementation Plan — proposed steps

<i>Procedures</i>	<i>Timing</i>	<i>Concerned authority</i>	<i>Remarks</i>
Establishment Secretary for Steering Committee for follow up the implementation of Integrated Framework program and project no.(GLO/03/GO3/A/JX/34)	June 2003	Minister of Industry and Trade, Head of Steering committee	
Presentation report on National workshop for meeting of steering committee of Integrated Framework program	12-July 2003	Secretary of Steering committee for Integrated Program.	
Presenting the results of National workshop to donors by coordinator of Integrated framework	15-31 July 2003	Mr. SAND Yansen	
Preparation of final review of overview /diagnostic Trade study involvement the accredited subjects from steering committee and also the corrections related study	To September 2003	-Dr. Sandy Cuthbertson and local experts. -World Bank	
Presenting the study and reviewed action plan to Steering committee.	1-15October 2003	Dr. Sandy cuthbertson and local experts. Secretary of Steering Committee.	
Ratification of steering committee for study and action plan and determination of priorities	15-30 October 2003	Steering Committee	
Ratification of General policies ministerial committee with WTO for action plan	15-30 October 2003	Steering Committee General policies committee	
Preliminary consultative meeting for donors for determination their interests In providing assistance for Implementing action plan	November 2003	Mr. Sander Janseen	
Joint consultative meeting for determination what donors will provide In Framework of Implementation of action plan.	November 2003 December 2003	Mr. Sander Janssen Donors Republic of Yemen other concerned parties.	
Merging action plan in the Poverty Reduction Strategy.		Steering Committee Poverty Reduction strategy. Steering committee for Integrated Program.	

# 1

## *Identifying priorities for trade related technical assistance*

***Yemeni people know well about trade***

International trade along with its facilitation and taxation has happened in Yemen on a large scale for thousands of years. This reflects, amongst other things, the antiquity of Yemen's civilization, its location on busy shipping routes and the natural propensity of the country's people to engage in trade. In the most recent of these many years, the environment for trade and investment confronting the people of Yemen has undergone particularly tumultuous change. These changes need to be appreciated when considering Yemen's priorities for trade related technical assistance. They include:

***Big changes in trade environment***

- the collapse of the Soviet Union in 1989 which meant substantial changes in aid flows and trade arrangements with the former Peoples' Democratic Republic of Yemen (PDRY) in the south;
- unification of the PDRY with the Yemen Arab Republic (YAR) in the north to form the Republic of Yemen (ROY) in 1990;
- the Gulf War in 1991 and perhaps hopes of peace and stability following unification in 1990 which led to the return of over one million Yemenis who had formerly been working in other countries and returning substantial remittances to Yemen;
- a civil war in 1994 which caused massive destruction of lives and property and damaged community fabric of trust and cooperation;
- chronic water shortages for some urban centres and in the agricultural sector — long subject to irregular drought — reflecting demands on underground water through a common property system exacerbated by subsidized fuel for pumping water;
- the attack on the USS Cole in Aden in 2000 which triggered a variety of responses from the international community; and
- terrorist attacks on the United States in 2001 and the subsequent war on terrorism which have impacted generally on the international climate for trade and investment and particularly on countries in the Arabian Peninsular region.

***Events disruptive for trade and investment***

All of these events have impacted significantly on the climate for trade and investment in Yemen and most have had a disruptive effect. Even the discovery of oil in the late 1980s and its subsequent emergence as the dominant export commodity has had mixed impacts giving rise to issues of management and stabilization of revenues and impacts on competitiveness of other sectors in the economy. The demands on governance from all these events are forbidding and all the more so as Yemen is one of the world's poorest countries. According to the Government's Poverty Reduction Strategy Paper (PRSP) nearly seven million of Yemen's 20 million population suffer some dimension of poverty (PRSP, 2002).

***Growth is first pillar of government strategy to reduce poverty***

In May 2002 the Government finalized a comprehensive strategy to reduce poverty (PRSP, 2002). The first pillar of this strategy involves improving economic growth. The Government is assured of strong support from multilateral agencies and bilateral donors in this endeavor. Both Government and donors recognise that improving economic growth depends critically on successful integration into international trade and international investment. The Government has been taking significant measures to open the economy to foreign trading opportunities since 1995 including initiating processes for acceding to the World Trade Organization (WTO). While these measures have had some pay off, given the lingering effects of events of recent years mentioned earlier, Yemen's continued integration into the international economy remains a formidable task.

***Integration into international trade and investment essential for growth***

***Trade barriers - of others and Yemen's - are one thing***

Trade barriers, while considerably reduced since 1995, still exist. These barriers impose unnecessary costs on the economy. Even wealthy and developed WTO member countries face political difficulties reducing barriers to trade. These difficulties also apply in Yemen. Such countries have well established tax bases whereas for Yemen — as for other least developed countries (LDCs) — dismantling of trade barriers raises revenue issues.

***So is rebuilding fractured institutional arrangements***

Integration also involves building market supportive institutional arrangements such as secure property rights, a functioning legal and judicial system that facilitates creation and enforcement of contracts and a reliable administrative system. In Yemen these arrangements are not well developed and the environment for investment is not attractive to either investors based in Yemen or to foreign investors. WTO membership can be a way of moving to these market supportive arrangements. But WTO membership will not be a guarantee of their existence or maintenance. Moreover, membership will also require comprehensive reporting and negotiation capacities within government. These demands are bound to be onerous in a country where the administration is poorly resourced, where



market institutions are unfamiliar and where the official languages of the WTO, English, French or Spanish, are not widely spoken or written.

***How can other countries help Yemen establish ingredients for investment?***

Yet for all these difficulties, trade and investment are essential components of growth — the first pillar of the Government's Poverty Reduction Strategy (PRSP, 2002). The ingredients for investment to bring about that growth need to be established. How can donors help? Donor funds are typically small, relative to what is needed and what could be achieved with an environment hospitable to private sector investment including investment in infrastructure. When donors funds become large in the scheme of things they run the risk of crowding out productive sectors, and because they are administratively rather than market allocated, undue reliance on donor funds risks rent seeking and corruption.

***Reducing donor's own barriers to trade would help***

How else might other countries help Yemen continue to integrate into the world trading economy? One answer to this question would be for the developed countries to reduce some of their own barriers to trade, and in the case of exports from Yemen particularly those barriers applying to agriculture and fisheries. This point is developed in chapter 3. Another answer would be for WTO member countries to make the process of WTO accession for LDCs easier. This is what WTO members agreed to do at the WTO Ministerial Round at Doha in November 2002. But WTO membership is not an end in itself. WTO membership has a value because it signifies the existence of market institutions and a capacity for open trade. An accession process that does not help build these things would be of limited value.

***So would trade related capacity building***

Yet another answer is to help Yemen and other LDCs build the relevant domestic capacity to participate effectively in international trade and investment. When a country has mines, fisheries or farmlands, it has a good start to providing quality lives for its people especially if those people are healthy and well educated. But even a country so blessed is not guaranteed success. Something extra is required. That something extra is a resource also, a resource which might be called good governance. A number of lessons have emerged about the design and delivery of technical assistance aimed at developing this good governance resource. One such lesson is that technical assistance and capacity building involves investment and commitment from the partner country. Another lesson is that it is not possible to build capacity everywhere at once and priorities need to be resolved. A third lesson is that outsiders cannot set these priorities. A fourth lesson is that these priorities should follow careful diagnosis of needs, past experience and critical assessment of the institutional settings for trade policy development and formulation.

***Lessons are this requires...***

***...LDCs to invest resources and...***

***...priorities to be set***

**1.1 Events leading up to the Yemen trade policy diagnostic study**

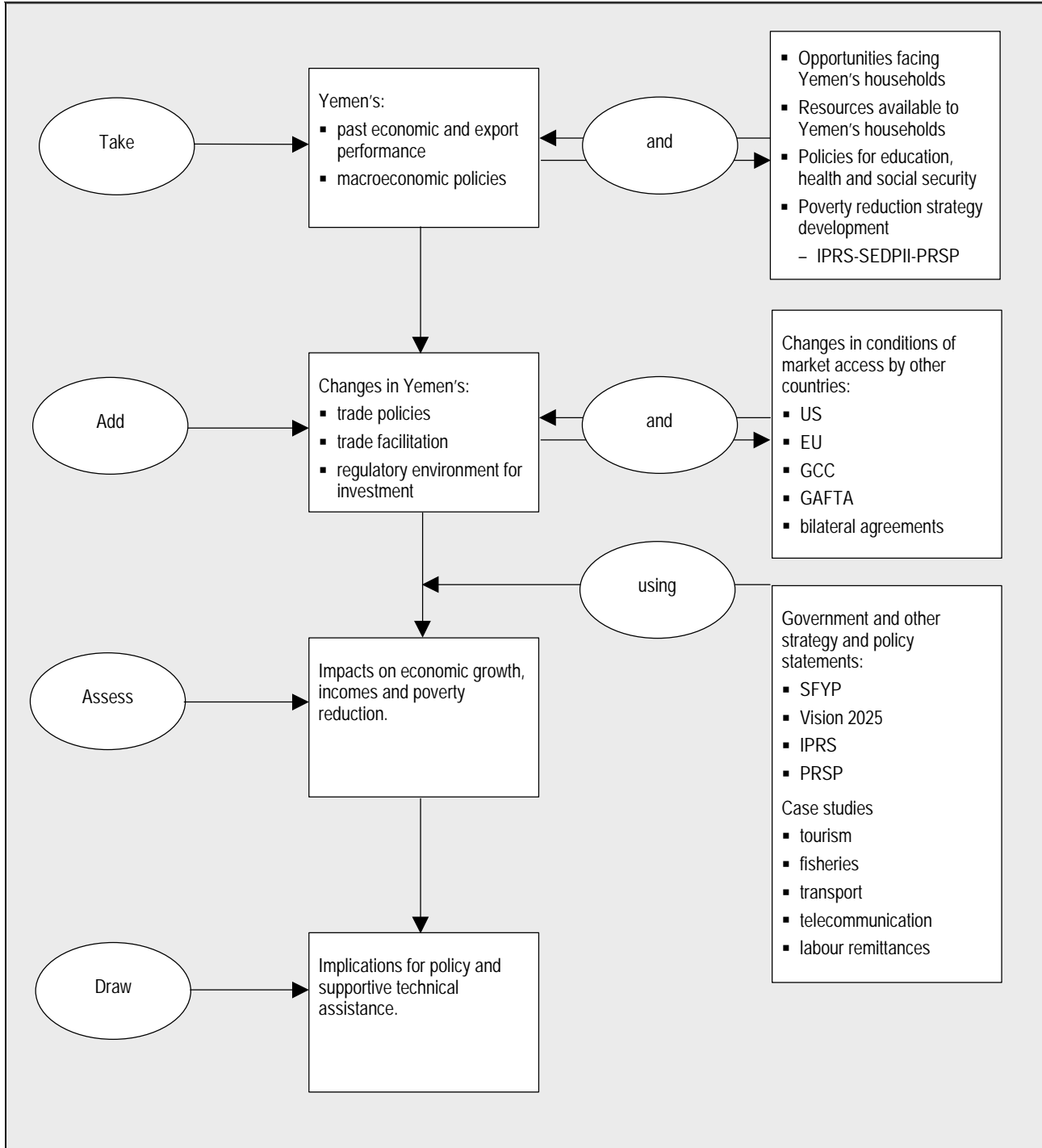
- The Integrated Framework (IF) Program commenced in 1997 to promote the integration of LDCs into the global economy. Participating agencies are the World Trade Organization (WTO), the International Monetary Fund (IMF), the International Trade Centre (ITC), United Nations Development Program (UNDP), United Nations Conference for Trade and Development (UNCTAD) and the World Bank (WB).
- In 2000, a Trust Fund was established to increase the benefits that LDCs derive from trade related Technical Assistance (TA). As of September 2001 pledges to the Trust Fund had been made by the following partners: Canada, United Kingdom, Japan, Switzerland, Norway, Denmark, Sweden, Ireland, United States, the Netherlands, Finland, UNDP, the European Commission, France and the World Bank. Three pilot countries (Cambodia, Madagascar and Mauritania) were identified for a program of work starting with a diagnostic trade integration study covering competitiveness and the impact of increased integration in the world economy on poverty and implied technical assistance needs flowing from these findings.
- In late 2001 the Government of Yemen and the Integrated Framework Steering Committee agreed that Yemen would be one of four countries to participate in the next round of the IF work program.
- In early 2002 an Integrated Framework preliminary mission was conducted to, amongst other things, establish working arrangements with the government, establish processes for recruiting local IF team members and establish the scope of the terms of reference.
- Through March, April and May, the Yemen focal point worked with the task manager and the team leader to finalize terms of reference, recruit international and local team members and arrange activities for the main field mission which was conducted between 18 May and 1 June.

The establishment of the Integrated Framework (IF) for technical assistance for trade development in least developed countries at the WTO High Level Meeting in 1997 in Geneva reflects and responds to these concerns and lessons. See box 1.1 for a description of the IF and how it is being utilized in Yemen.

***Diagnostic study for Yemen draws on...******...SFYP...******...Vision 2025...******...IPRS...******...PRSP***

The first stage of the IF process involves a Diagnostic Trade Integration Study (DTIS). Bearing in mind that both the supply of trade related technical assistance and the capacity to absorb it are limited, the core task of a DTIS is to diagnose trade integration needs, and drawing on existing and proposed technical assistance, identify technical assistance priorities. Chart 1.2 sets out the components of the DTIS in an integrated framework approach. Many of these components have been addressed in government strategies and planning documents and by supporting work of international agencies. These reports include the Poverty Reduction Strategy Paper (PRSP), May 2002, the Interim Poverty Reduction Strategy (IPRS), May 2001, the Second Five Year Plan (SFYP), 2000 and Strategic Vision 2025 of 2000. A report prepared by the World Bank (WB) *Economic growth: sources, constraints and potentials* established much of the information and analysis used to develop this DTIS (World Bank, 2002).

1.2 Integrated framework approach



# 2

## *Macroeconomic policy choices*

### *Yemen dominated by oil and remittance incomes*

About 75 per cent of Yemen's 20 million people live in rural areas. Agriculture's share of gross domestic product (GDP) is around 15 per cent while services, oil (mining and quarrying) and manufacturing contribute around 40, 30 and 10 per cent respectively. Oil exports comprise around 96 per cent of export revenue and revenues from oil are currently the Government's main revenue source. Incomes from labor remittances are about the same as revenues from oil. Remittances accrue to the private sector. While Yemen is an oil economy it is not an oil rich one and many people are poor.

### *Good progress with fiscal balance and reducing inflation*

Macroeconomic performance since the implementation of the Government's economic reform program in 1996 has improved markedly. By liberalizing the foreign exchange regime, achieving fiscal balance and enhancing monetary control the government was able to stabilize the economy and realise the economic benefits from rising oil revenues. An ambitious structural reform program began with trade liberalisation and includes changes to public expenditure and taxation, and revisions to many laws to establish the environment in which private markets can function. The fiscal situation improved significantly when oil prices rose in 2000. Budget surpluses in 2000 and 2001 (8.5 per cent, and 2.8 per cent of the GDP) reduced the Government's financing needs. Inflation fell from a high of 72.0 per cent in 1994 to a low of 4.6 per cent in 2000 and the year to year rate in April 2002 was 16.2 per cent. Chart 2.1 illustrates the greater stability in financial variables since 1995.

## **Main points of vulnerability**

However, these significant achievements have not delivered enough in terms of growth, employment or investment to reduce poverty.

### *But growth is slowing...*

- Real GDP grew by 5.5 per cent per year on average over the 10 year period 1992 to 2001. Growth was low in 1993 and 1994 due to civil strife and war. While growth comparisons need to be qualified by the possibility of measurement errors the average rate of growth for the first five years was 6.3 per cent, compared with 4.7 per cent over the

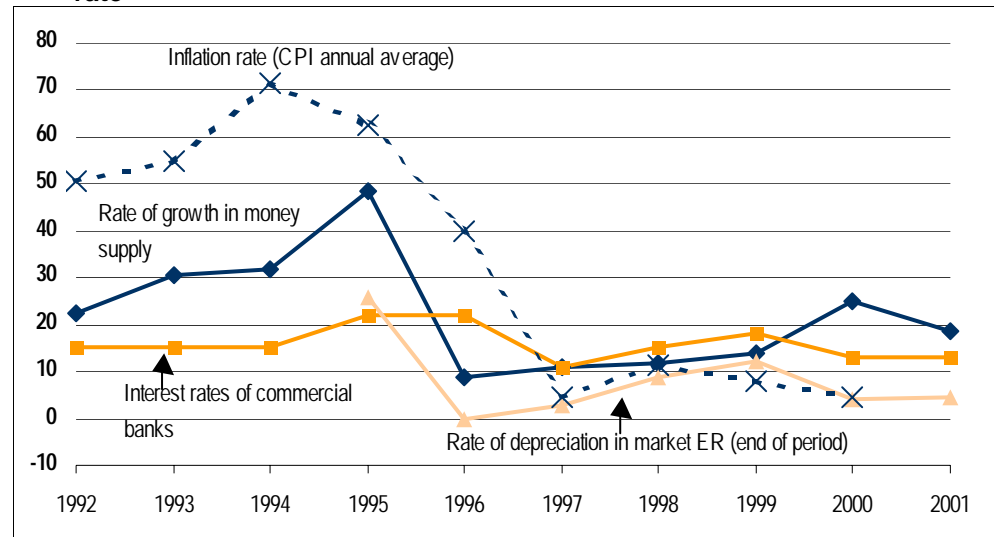
second half of the period following the reform agenda. In 2001, growth slowed to 3.3 per cent, and this resulted from stagnant oil production and a slowdown in non-oil GDP growth (to 4 per cent) relative to 2000 (4.7 per cent), owing to weaker than expected performance in the agriculture, manufacturing and electricity sectors. Tourism suffered from the aftermath of the 11 September attacks, and the sector's contribution to GDP is small.

*...so is investment*

*With population growing at 3.5 per cent recent economic growth not enough to reduce poverty*

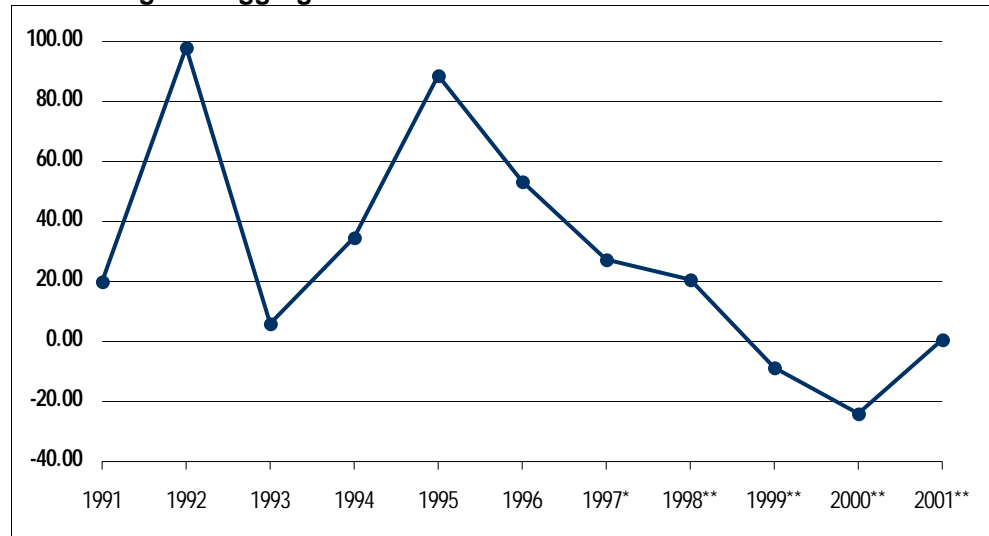
- Growth in investment demand fell sharply after 1995, and most can be attributed to reductions in private investment demand. Chart 2.2 plots the percentage growth in aggregate investment demand over the period 1991 to 2001.
- With population growing at 3.5 per cent per annum — and faster among poor families — GDP growth has not been large enough to wind back poverty. According to the Government's PRSP, which was finalized in May 2002, the 1998 Household Budget Survey showed that 17.6 per cent of the Yemeni population live under the food poverty line, whereas the percentage of the population who are incapable of obtaining all their food and non food requirements is 41.8 per cent (PRSP, 2002).

2.1 Interest rate and changes in the money supply, prices and the exchange rate



Data source: Central Bank of Yemen, 2002

## 2.2 Changes in aggregate investment



Data source: Central Bank of Yemen, 2002

**And the economy is vulnerable on several fronts...**

**...fiscal balance achieved mainly via oil revenues...**

**...and not expenditure cuts.**

**– dependence on oil**

**– inflation volatile**

**– investment environment weak**

The improved fiscal balance and macroeconomic stability generally is vulnerable on several counts. First, while there have been some reductions in expenditure, the main contribution to fiscal balance has been increased oil revenues. Oil revenues are inherently unstable. On the price side, Yemen is no less exposed to movements in world oil prices than any other producer. On the production side, while exploration is ongoing, known oil reserves face depletion and even with new discoveries it would take some time before production came on stream. Second, the private investment necessary to bring about growth, including growth in non-oil sectors, is not happening. Surveys of investors indicate their main concerns are about macroeconomic instability, the quality of governance and land security and judicial weaknesses. This frailty of the economy *vis a vis* fluctuations in oil returns and the need to create a suitable environment for private investment are core issues identified in the PRSP. Third, in December 2001 the rate of inflation had increased to 22 per cent. This can be explained in part by summer increases in the prices of diesel (70 per cent) and electricity (30 per cent) which fed into the August and September CPI, and by mid 2002 inflation had returned to single digit levels. Nonetheless inflation remains volatile.

An important consideration in thinking about these points of vulnerability is the informal economy operating in Yemen. Many goods are produced for home consumption, much trade is by way of barter and smuggling is reported to be substantial. Informal or shadow economies in developing countries typically make up 35 to 44 per cent of GDP (Schneider and Enste, 2002). They tend to be larger where tax rates are high and where the rule of law is not well established.

*The informal economy enables Yemeni people to cope with the environment but complicates policy development and inhibits modern commercial practices.*

*Need to encourage people out of the shadows with clear regulation, modest taxation and efficient delivery of public services*

*Poverty reduction requires growth...*

*...which requires investment...*

*... which requires macro stability...*

*... financial sector efficiency and profitable investment opportunities...*

*... which require good governance*

Large informal economies have several implications. First, they mean that policies and programs framed on the basis of unreliable statistics may be inappropriate and self defeating (Schneider and Enste, 2002). Second, modern international trade typically requires features that are more effectively delivered out of the shadows. These features include standards, and tie-in services such as inventory management, after sales service, and spare parts. Third, transactions in the informal economy escape taxation thus keeping tax revenues lower than they would otherwise be (Schneider and Enste, 2002). On the other hand, a large informal economy may mean that the productive capacity of the country is more robust than official statistics indicate. It may also imply that policy failure has fewer negative consequences for welfare than might otherwise be the case. However if sustained growth requires creation of larger modern enterprises taking advantage of technologies, management practices and expertise access from the rest of the world, then an informal economy is unlikely to enable Yemeni people to take best possible advantage of international integration.

Chart 2.3 sets out some of the policy choices facing the Government in this context. Poverty reduction requires economic growth (along with the three other pillars of the PRSP, human resource development, infrastructure and mechanisms for social protection). Economic growth requires investment and productivity growth. Much of this investment can be from the private sector — domestic and external savers. Investment in turn requires macroeconomic stability, an environment where there are profitable investment opportunities — which in turn requires good governance — and a financial sector which achieves low cost intermediation between people who wish to save and those who wish to invest. Macroeconomic stability is vulnerable to the increasing reliance of the budget on oil returns. That the returns are uncertain is one thing, another is how well they are being used. A separate question is the increasing share of budgetary resources being absorbed by non productive rather than development expenditures. An important issue is whether there is scope to substitute sound public investment activities for unsound expenditures. Productivity growth not only requires investment — and the new technology it can bring — but also improvements in the capabilities of the Yemen people. Some sound development expenditures may be of a recurring kind such as teachers' and nurses' salaries and materials to support their work. Thus the Government will need to focus on public expenditure investment for human resource development (the second pillar of the PRSP) and improved delivery of public goods and services that will complement private investment.

Prudent management will be required to maintain macroeconomic stability in Yemen as oil revenues fluctuate. Over the next few years Yemen faces

***Macro management around oil revenues pose special problems because... they fluctuate... and over the next few years are more likely to fall than rise.***

the prospect of rapidly declining government oil revenues on the one hand, and a weak supply response in the non-oil sector on the other. With regard to the first, production from proven oil reserves is set to decline steadily starting in 2003. A number of foreign oil companies are now undertaking exploration in newly opened fields in the border area with Saudi Arabia as well as offshore and prospects for new oil discoveries in these fields appear to be good. However any new discovery would probably not come on line before 2004-05.

## **Importance of hitting PRSP macro targets**

***PRSP maps out approach to the adjustments in face of prospect of declining oil revenues.***

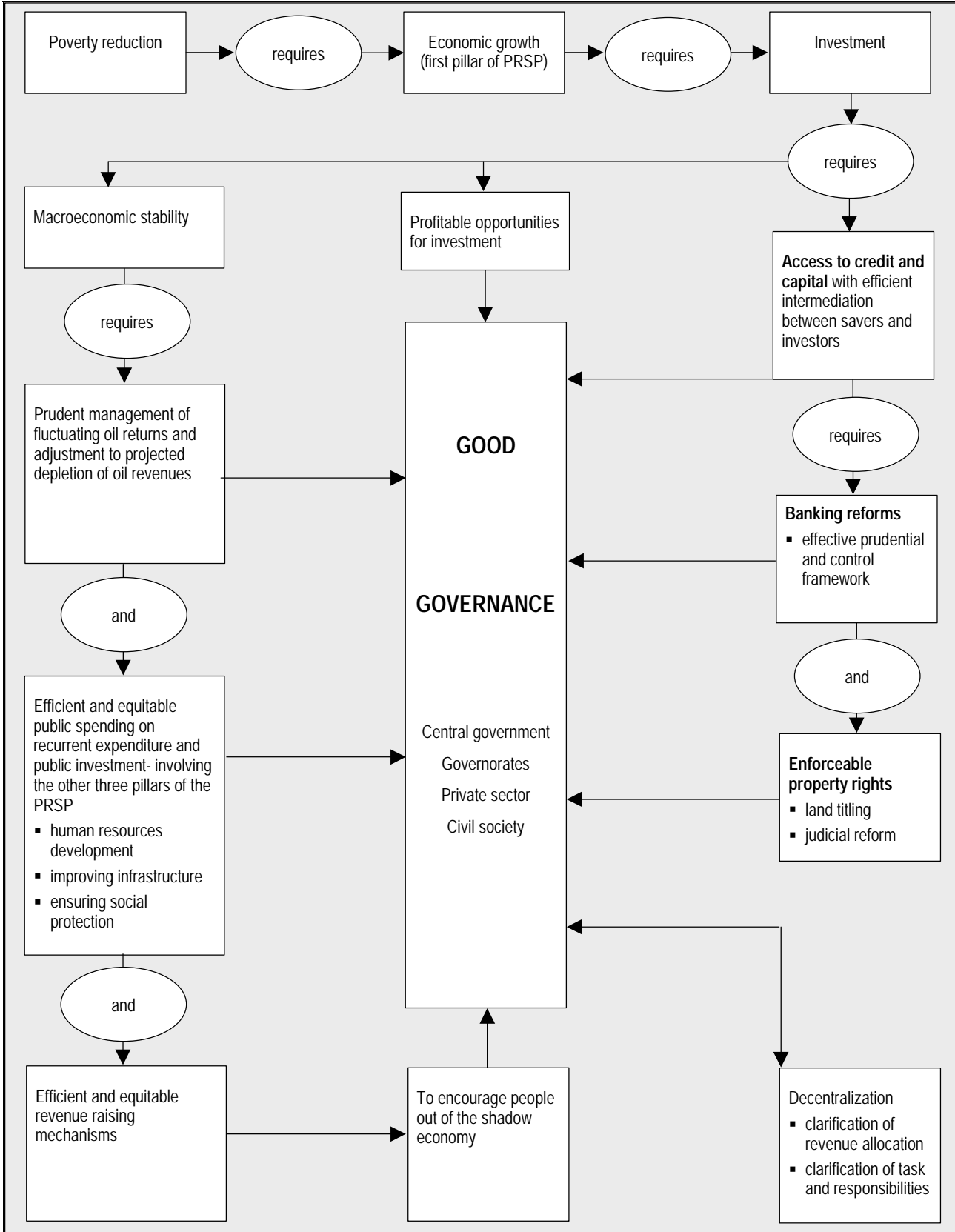
The vulnerability resulting from reliance on oil revenues is a key concern of the PRSP which proposes a reduction in the non-oil deficit to be achieved by curbing expenditures and raising non-oil revenues. Accordingly, the PRSP targets a reduction of the non-oil fiscal deficit from 25 per cent in 2002 to 20 per cent by 2005. The reduction in the non-oil deficit is achieved by curbing expenditure (about 3 per cent of GDP cumulative decline) and raising non-oil revenues. Tax reforms are underway and included in the Reform Program which has been implemented by the Government since 1995. Most of the expenditure adjustment is projected to come from the elimination of fuel subsidies and a retrenchment of defense spending, while development spending is projected to increase.

***Scope for raising tax revenue limited by fragile tax base***

Taxes on personal and business income have been reduced and simplified. Reduced taxes on personal and business income would normally have the effect of diminishing revenues. The Government has been working on an expansion of the tax base through implementation of a tax on value added (the General Sales Tax – GST) The first draft of a law on GST was approved by the Parliament in March 2001, and was ratified for the second time in November 2001. During 2002 the Government launched a public campaign preparing for the implementation of the GST in September 2002. In July 2002 the implementation of the GST was postponed. Law No. 36 for the year 2002 calls for the implementation of the GST (Law No. 19) to be passed effective on 1 January 2004.



2.3 Requirements for growth



## The forex market

*Pressures on currency from oil revenue could occur in two ways...*

Another related policy issue is how a fall in oil revenue would impact through the foreign exchange market. Such a reduction would reduce the supply of forex to the economy that would in turn lead to pressures for depreciation of the real exchange rate (measured by an index of non-traded to traded goods prices). Such depreciation would facilitate the adjustment to reduced oil revenues and would raise returns to non-oil sectors. Continued flexible management of the exchange rate would facilitate such adjustment.

## Investment environment

*Besides macroeconomic stability investors worried about...*

*–inefficient services  
–land security  
–judicial unreliability*

In view of the distinct possibility of deteriorating oil revenues, future growth and employment prospects will depend on Yemen's ability to generate a supply response in the non-oil sector. A number structural impediments will need to be removed in order to facilitate this growth process, and more specifically, an environment needs to be created that will allow the private sector to play a greater role in achieving a high and sustained rate of economic growth. According to a recent enterprise survey conducted by the World Bank, private sector development faces significant constraints in the form of corruption and inefficient provision of government services, uncompetitive practices and uncertain access to electricity, land, and judicial remedies. While the Government has taken some steps recently to strengthen governance and the rule of law, the need for reforms runs deeper. Lack of confidence in the judicial process is acknowledged to be an impediment to private sector activity. At the judicial level, there is a need for well functioning commercial courts and effective mechanisms to enforce judgments in order to give banks the confidence to lend to a broader group of investors. Currently banks tend to lend to people known to them.

*Land and judicial reform crucial if people are to be able to borrow and invest*

To reverse the recent declines in private investment demand, and to secure a better environment for market activity generally, there is an urgent need to improve the way the judiciary functions and to advance the process of land title registration. The lack of security over property rights is a key impediment to growth in Yemen because it neutralizes the effectiveness of the reform agenda. Land title is frequently in dispute and most cases before the commercial courts involve disputes over land. Resolution of these disputes is slow and erratic and there is widespread lack of confidence in the judicial system. This undermines land as an important source of collateral for bank loans. Without this security, and without support from the judiciary, the lack of collateral undermines bank lending and constrains

private investment, both domestic and foreign. As a consequence of this, banks lend small amounts to close associates and use the remaining funds to buy treasury bills, CD's and REPOS, which are relatively safe assets. Under these circumstances, there is little need for prudential supervision by the Central Bank of Yemen (CBY).

## Civil service and wage reform

***Civil service reform slow going so far*** After unification salaries of employees were adjusted to equivalent levels. With the return of expatriates and reinstatement of the policy of hiring all university graduates, the civil service (excluding public enterprises) grew from 168 000 in 1990 to 322 000 in 1995, and reached 400 000 by 2001. Under the economic reform program, the authorities have undertaken to reform the civil service with assistance from the World Bank. However, the reform process in this area has suffered many setbacks. Attempts to keep the wage bill in check by limiting recruitment and salary increases were only partially successful and measures to address the problem of over employment and a compressed wage scale have only just begun.

***Civil service reform about raising quality of service not a matter of cutbacks and saving expenditures*** Civil service reform has several implications for investment. First, reducing salary expenditure would help achieve macroeconomic stability and provide for the government to undertake investment in human development and infrastructure services. Second, civil service reform would improve the quality of governance. The Government has declared 2002 to be the year of civil service reform. A civil service modernization project is focussing on three main components. These are improving payroll control, facilitating the retrenchment of civil servants and developing a civil service restructuring plan. If civil service reform were to involve retrenching large numbers of people the short-term implications for the budget may involve increased expenditures. The important thing then would be for such expenditures to be a productive investment with a pay-off by way of better administration and overall governance.

## Subsidy reform

***Subsidy expenditures reemerging as gaps between domestic and world prices increase*** Until 1997, wheat and flour subsidies were the main components of the Government's social safety net and transfer program. These subsidies were removed in 1997 along with subsidies on petroleum products with the important exception of subsidies for diesel fuel. The basis for these subsidies is the difference between a benchmark domestic price and world prices. The removal of the parallel exchange rate with the floating of the exchange rate in 1996 led to reductions in subsidies. Some subsidies are

returning as differences between international and domestic benchmark prices are reemerging. The diesel fuel subsidy is relatively large and costly. It appears to be the cause of considerable waste and the unsustainable use of ground water. There was political discontent in 2001 when a reduction in the subsidy led to a rise in diesel prices of 70 per cent.

## **Other fiscal issues**

The fiscal reform agenda also includes: pension reform aimed at correcting the actuarial imbalance of the public pension system; budget management reform aimed at modernizing budget preparation execution and monitoring; and decentralization, with the objective of providing the local governments with greater fiscal independence to realise their objectives, all the while ensuring overall fiscal responsibility.

## **Institutional settings and technical assistance**

### ***Institutional settings***

The Government has prepared a number of major analytical and policy statements:

- SFYP, 2001 (Ministry of Planning and Development);
- Strategic Vision 2025;
- IPRS, 2001 (Ministry of Finance); and
- PRSP, May 2002 (Ministry of Finance).

These documents consistently refer to the:

- problem of governance, security and judicial weakness;
- need to cover oil dependency;
- lack of investment; and
- weaknesses in infrastructure services.

Concerns about governance do not seem to be as vigorously expressed about the management of oil exploration, investment and income as they are about most other activities of government oil negotiations. Partnership agreements appear to be relatively efficient reflecting the developments in the oil sector since oil was first discovered in the 1980s. These negotiations are managed by the Ministry of Oil and Minerals. Incentive arrangements

are typically built around royalties not exceeding 10 per cent, production share to the benefit of investors in line with production and potential reserves, and full reimbursement of operating expenses.

Decentralization is a policy of the Government but just how funds are to be collected — by the central and local administrative units — and tasks are to be allocated, does not seem to be well specified. There is a tendency for technical assistance such as training and capacity building to take place at the centre rather than in governorates.

Whether it be financial sector reform, privatization or civil service reform, the quality of the judiciary appears to be at the heart of the matter. Without judicial reform and security of property and contracts the payoff from technical assistance in other areas is unlikely to be high.

### ***Technical assistance***

There are formal and informal consultation processes among donors. A formal coordination mechanism exists for technical assistance provided by the International Monetary Fund (IMF), Department for International Development (DFID), and United Nations Development Program (UNDP) under the Technical Cooperation Action Plan.

There are also informal consultation processes among donors. While it would be impractical and probably undesirable to move to a unified view about what matters most — there might be room to build up informal processes now being sponsored into a more structured process where ideas could be raised and tested.

Some relevant technical assistance now underway includes the following.

- Civil service modernization project:
  - action plan focussing on 4 areas, core systems improvement and human resource management, government restructuring and reengineering, manpower restructuring and right sizing and capacity building and change management;
- GTZ project in the Ministry of Finance to build financial management system.

Priority areas for technical assistance include on-going support for civil service reform, taxation review, decentralization and processes to manage fluctuating oil revenues.

# 3

## *Regulation*

***Formal regulatory regime much improved...***

The formal regulatory environment for investment in Yemen, as expressed in laws and regulations, has improved considerably over the last few years. The investment law established key investor rights and protections, and trade and exchange reforms should point investors towards activities consistent with comparative advantage and facilitate access to international technology and business practices. However, the positive effects of formal laws and regulations is seriously undermined by a range of institutional and administrative factors.

***But investment by foreigners and by Yemenis is down***

Private investment in Yemen has fallen to around 10 per cent of GDP in 2000, and outflows of foreign investor's capital have exceeded inflows since 1994. The lack of foreign and domestic investment in Yemen threaten the country's ability to generate growth and with that to reduce poverty.

***Impact of terrorism on investment a concern but not the whole story...***

Perceptions about the environment for investment in Yemen have undoubtedly been affected by the events in Aden and New York. And it is to be expected that confidence would take time to rebuild. But these considerations, serious as they are, are only part of the problem.

***...administration deters investors...***

The business sector points to difficulties with: predictability of macro-economic management; business establishment procedures; the absence of fully streamlined processes for dealing with regulatory requirements affecting investment; tax policies and their administration; access to land and security of tenure; connecting to public utilities; and the functioning of the financial system. Such difficulties are identified by business people in most developing countries.

***So does weak judiciary and contract enforcement...***

In Yemen, deeper even than these regulatory constraints are problems with the institutions and systems that should protect property rights and enable efficient contracting. The performance of the judicial system, and the mechanisms for ensuring compliance with judicial decisions is a major problem area.

***...delivery of public goods a concern.***

Problems in business and in government both point to deficiencies in public sector governance and economic management. The delivery of public goods and services to complement private investment and activity is

weak. Uncertainty is high, raising transaction costs to levels that deter all but the bravest or best connected investors.

***Progress being made***

These problems are severe, but progress is being made. Macroeconomic imbalances have been reduced, and the Government is embarking on important legal and judicial reforms, as well efforts to strengthen public financial management and to restructure the financial system. Moreover, there have been important private sector initiatives, in areas such as dispute resolution.

## **The formal regulatory environment**

Direct regulation of investment through the Investment Law has become more liberal, and reforms of international trade and exchange policies have removed key policy distortions impacting on use of foreign exchange, access to imports and the costs of exporting. Taxation policies are being reformed, and regulation of the financial sector is moving to create a sounder and more efficient banking system.

### ***The Law on Investment and the operation of the General Investment Authority (GIA)***

***Foreign investment law judged 'acceptable'***

In 1998, the Foreign Investment Advisory Service (FIAS) reviewed the investment laws in Yemen as they applied at that time and shortly after it was amended in 1997. According to this review the law was perceived by foreign investors as 'generally acceptable for an average developing country', but having certain major weaknesses. A new law which replaced the old law was passed in the Parliament in June 2002. This new law amongst other things changes the treatment of 'protected' sectors, replaces licensing with simplified registration procedures and reduces the regulatory functions of the General Investment Authority (GIA).

***...domestic and foreign treated equally and both...***

The new law provides for the following guarantees.

***...can own or lease land...***

- All investors, Yemeni or foreigners, are entitled to invest in any sector, except for oil, gas and minerals which are subject to special agreements.

***...and are protected against nationalization...***

- All investors, Yemeni or foreigners, are entitled to acquire or lease lands and/or buildings owned by the private sector or the government, to be used for the purposes of investment.

***... and arbitrary changes in treatment***

- All investors shall be treated equally without any discrimination.
- Investment projects are protected against nationalization, seizure, confiscation, withholding or sequestration, except by Court decision.

- Investment projects may not be expropriated, except in the public interest and only according to a Court judgment.
- A project registration, and any related rights or incentives may not be withdrawn or nullified, except upon a Court judgment.
- Under the new law of 2002 the positive list of sectors to be promoted was replaced by a negative list of sectors that are ineligible for the rights and privileges provided under the law.

***New law retains some features***

***–tax holidays***

***–customs exemptions***

The new investment law retains some features of earlier laws.

- Incentives, including exemption from customs duties, income tax holidays and exemption from stamp and business practice taxes still apply.
- Customs exemptions add to challenges faced by customs administration, and may be less effective than adoption of lower and more uniform rates of duty.
- It provides for discretionary temporary protection for selected projects through a facility to impose duties on imports competing with local production upon recommendation by the GIA. This should not create a monopoly in any way.

***Regulatory powers of GIA reduced under new law***

The law is administered by the GIA. In an attempt to establish the Authority as a ‘one-stop-shop’ for investors, key Government ministries and agencies with relevant regulatory or service delivery functions have offices at the premises of the Authority. With the new investment law the regulatory powers of the GIA have been reduced.

***Other policies with direct impacts on investment***

***Taxation***

While the tax law is important in laying out the formal basis for determination of tax liabilities, tax obligations in Yemen are much more implemented by tax to administration. Important improvements in tax administration have been initiated (such as introduction of a new taxpayer identification system, and computerized registration of taxpayers and adoption of self-assessment procedures). As these improvements take hold taxation will become more a payment based on real income, which are accredited on budget and book statements and account. The tax investment law requires the tax authority to implement exemptions without any discrimination between local and foreign companies. The application of a collection system on accounts which has been implemented completely



especially on government contracts has achieved a great success in previous years. This system is considered one of the successful means to combat taxation avoidance and tackle certain procedures for deduction of tax payment sources. The law is still being studied to comply with economic variables. The tax authority has issued all laws regulations, decisions and instructions in order to facilitate the procedures for tax payers so that they can know their tax obligations easily.

### ***Factor market regulation***

Investor's decisions are also affected by the impact of regulation on factors of production they use in production processes.

#### *Land*

#### ***Creating a modern and unified land tenure system a huge task***

In Yemen, the challenges that investors face with respect to land lie not so much in respect of regulation as in the absence of effective means of identifying, securing and defending title to land. Yemen is in the process of creating a modern and unified land tenure system building on number of pre-existing and customary systems. Currently a range of land ownership systems coexist, including private land owned under modern and customary titles.

#### ***Clear title still new***

Documentary evidence of land title is a relatively recent phenomenon, and it is difficult for investors to ensure that they have acquired clear title to parcels of land. Decree No. 39 pertaining to real estate registration was introduced in Yemen in 1991, and according to the law every landowner has to register his or her title in the Land Registry. If a landowner fails to do so may not acquire the legal estate and therefore may run the risk of losing their land. Unfortunately, the law does not provide that if a landlord fails to register title he or she shall not acquire the legal estate. Thus registration of title land does not provide indefeasible title (as under a Torrens system) and so prevent courts from deciding for or against the registered title. This gap in the law is one reason for the widespread occurrence of land disputes.

#### *Labor*

#### ***Paternalistic labor market...***

Yemen's system of labor market regulation is set out in box 3.1.

*...controls on...*

*...hiring...*

*...foreign labor...*

*...termination...*

*...training...*

*...health care*

### 3.1 Labor market regulation

The IMF recently summarised Yemen's labor legislation. Some key features that were identified included:

- Controls on the direct hiring of labor from the market: vacancies must first be reported to the Ministry of Social Affairs and Labor — only if the Ministry cannot nominate candidates within a fixed period can firms go directly to the market;
- Controls on the use of foreign labor. Non-Yemeni workers can only be hired where no Yemeni expertise is available, and then provided that the number of such workers does not exceed 10 per cent of the workforce of the establishment;
- Controls on termination of work contracts, and provision for compensation to workers in the case of termination
- Mandatory provision of vocational training or financial contributions to the government's vocational training programs; and
- Mandatory provision of health care, including in-house provision of facilities for larger establishments.

### *Finance*

**Contract  
enforcement  
fundamental need**

Access to credit remains a significant impediment to new investors in Yemen. While reforms have removed previous elements of directed credit allocation, the banking system remains weak and beset by structural problems. For a variety of reasons, some related to government financial policies, the banking sector is very conservative. However, the most significant constraints on lending to new investors lie in the broader legal environment surrounding the construction and enforcement of contracts and exercise of security (see box 3.2).

### 3.2 Needs within the banking sector

Yemen's banking system is not serving as an effective vehicle for financing productive private sector investment. In 2000, some 60 per cent of total assets were held as deposits in foreign banks or treasury bills. Such loans to the private sector that are advanced are mainly in the form of overdrafts: there are virtually no loans for long-term projects. Since international letters of credit usually require cash margins of 50 to 100 per cent, banks are not really financing trade: rather they provide a documentation service.

The main private clients of the banking system are the large family owned enterprises that dominate the formal business sector in Yemen. Often they are the main shareholders of the banks. Banks are reluctant to lend outside of this limited group of companies because of the difficulties they face in ensuring repayment or exercising rights over collateral. Because of problems in the judicial system, lenders see little point in taking defaulters to court — borrowers who are unwilling to pay are able to defer judgment almost indefinitely, or to avoid enforcement when judgment is given. As a consequence, banks are seen as taking most of the project risk on lending to large influential borrowers.

Banks are seldom engaged in mortgage lending, because land titles are hard to establish and enforce, and because courts are very reluctant to order eviction of defaulters. Banks are also reluctant to lend against consignment collateral unless customers are very well known, because of experiences with some shipping agents that deliver to traders before the bank endorses bills of lading.

## *Fiscal decentralization*

In early 2002, the Government began to implement the Local Authority Law and its executive and financial bylaws. Together these pieces of legislation provide for the conduct of government business at local levels. The executive bylaw defines the tasks of the administrative units and the financial bylaw sets out roles and responsibilities of local administrative units. The financial bylaw was first implemented during preparation of the 2002 Budget. Local administrative units received 21 per cent of total government expenditure. They can collect revenues and it is estimated that they will collect 3 per cent of total public revenues. According to the law the main sources of revenue at local level are taxes and fees on public services as well as the Zakat and tax on qat consumption and real estate and services. These sources of revenue are insignificant in most districts.

## **Governance**

The foregoing discussion of the regulatory system has pointed to some overarching problems impacting on investment relating to the security of property rights and the quality of public sector management.

### ***The legal and judicial system***

***Land insecurity aggravated by a...*** Difficulties with the legal and judicial system are continually cited as reasons for insecurity of property rights. Some problems lie with respect to the stage of development of the land registration system. But the performance of judicial mechanisms for resolution of commercial disputes plays a critical role.

***...and control by the executive*** The Constitution states that the judiciary shall be judicially, financially and administratively independent and impartial. The Constitution states as well that interference with or influence on judges shall be a crime that shall not be subject to prescription of time.

#### *Performance of the commercial courts*

Factors that appear to be affecting the performance of the commercial courts that should treat most cases affecting commercial disputes include:

- Commercial courts developing but...***
  - the level of qualifications and experience of the judiciary — the High Judiciary Institute is not well equipped to training judges for service on the commercial court;
- ...perceptions of corruption...***
  - widespread perceptions of corruption within the judiciary, which erodes confidence in the overall legal system, and the willingness of people to use courts to resolve disputes;
- ...lack of permanent premises***
  - lack of permanent premises for courts, leading to frequent relocation leading to delays;
  - insufficient protection of judges from threats;
  - principles of jurisprudence are not clearly established or adhered to; and
  - need to expand publication and access ability of law among the people.

Lack of experience and up-to-date training of judges is reported to lead to confusion regarding the interaction of precepts of Sharia law (on which the subject matter laws of Yemen are based) and the commercial laws of the country. Mechanisms for enforcement of decisions are weak.

### ***The quality of public sector management and governance***

Investor confidence in Yemen is also negatively affected by concerns over the quality of governance and economic management in the public sector. This has a number of dimensions.

***Checks and balances such as provided by audit and Parliament need to be developed***

Management of oil revenues and concerns about macroeconomic stability have already been mentioned. The private sector is also concerned about the quality and allocation of public sector resource use and, and the processes of transparency and accountability with respect to public sector performance. The Central Commission for Control and Audit is not perceived to provide a fully independent and effective monitoring of resource use by government, and the House of Representatives is too poorly resourced to provide the mechanism of checks and accountability over the actions of the executive. The ongoing decentralization of public spending and revenue decisions may help to improve confidence in and accountability of the system in time, but much needs to be done to develop capacities and systems at local levels to carry the new responsibilities.

## **Privatization**

***Some publicly owned and operated service sector firms are monopolistic and inefficient***

One important aspect of public sector performance where reform could be expected to significantly improve the investment environment lies in the operations of state enterprises. The transport and communications sector, vital suppliers of services to the business sector, have long been dominated by inefficient, monopolistic state enterprises. At the same time, the fiscal and financial costs of maintaining unprofitable enterprises in other sectors have constrained the availability of resources for more appropriate spending on public goods and services by the public sector, and for investment by the private sector.

***Privatization would be a positive signal to private investors***

The Government recognizes the need to privatize many state enterprises to take pressure off the budget and to move resources into private competitive markets where they can be used more efficiently. An effective privatization program could also send strong signals about the government commitment to provide sector development, and provide investment opportunities to attract foreign and local capital. However, as discussed below, the privatization process is not proceeding smoothly, and the related establishment of a stock exchange — in principle a useful incentive to encourage mobilisation of capital — is unlikely to be successful in the current climate of public and private sector governance.

***Privatization needs to be against realistic values***

For privatization to raise revenue and bring about efficiency improvements a number of institutional and administrative processes need to be put in place. Privatization is the responsibility of the High Committee for privatization which supervises the Technical Privatization Office. Only small enterprises have been privatized to date but several large enterprises are in an advanced stage and there is a privatization schedule which contains over 60 enterprises. An important step in the process especially

from the point of view of protecting government revenues is to obtain a realistic valuation of the enterprise. This has gone slowly in Yemen partly because of a decision by the Parliament not to borrow funds to finance the cost of obtaining such valuations.

***Bids are by way of technical and financial offers***

Firms bidding for government enterprises must submit two offers — a technical offer and financial offer. The technical offer contains commitments by bidders that restrict the changes they can make to these enterprises — such as committing to maintain employment. These technical requirements have several undesirable effects. First, they reduce the prices bidders are prepared to offer. Second, they raise the level of administrative discretion (and with that reduce transparency and bidder confidence) involved in the bidding process. Third, constraining technical management decisions in turn limits scope for achieving productivity improvements in the enterprise and with that the capacity to expand and provide additional employment. As a result the depth of potential buyers is likely to be reduced with adverse effects on price and scope to attract investors with sound reputations for innovation and management.

***Technical offer process can reduce value of entity***

***Selling protected monopolies might secure a high price but imposes costs on the economy***

Another important issue in the management of privatization is the regulatory environment surrounding state owned enterprises. For example, PTC, the fixed line telecommunication provider, and Yemenia, the airline, both benefit from restrictions on entry. While entry into cell telephone services is allowed, entry into fixed line service and international services is restricted. Similarly, Yemenia faces competition with respect to international airline services but not on the domestic market. Removal of these restrictions on entry would improve efficiency and promote new investment in these activities. It could come at a cost in terms of reduced offer prices, though this is not certain as clarification and transparency of a regulatory regime may be more attractive to bidders than a monopoly position of uncertain status.

***Ingredients for a stock market still missing***

An effectively functioning stock market is an important ingredient of a privatization program. A draft law to establish a stock market proposes to have it commence operations towards the end of 2003. Several important ingredients for a properly functioning stock market are missing. These include confidence in the legal system and access to independently audited information about companies to protect the interests of shareholders for bad managers. Thus there is a dilemma for privatization, a poorly functioning stock market would result in weak revenue collection, but if these assets are not sold there are efficiency losses from keeping them under public management. There is little point privatizing public enterprises into a private sector that does not have a suitable climate for

private investment. And this emphasizes the urgent need to establish secure property rights?

## Options to improve the regulatory environment for investment

*Well developed analysis of problems and solutions being developed in Yemen by Yemenis*

Concerns about investor interest in Yemen — especially from Yemenis living abroad — reflects a need to build confidence in some key public institutions. Changing rules and regulations can have some impact on negative perceptions — but so is building institutional capacity. It is important to put the critique of Yemeni institutions into perspective. One positive aspect is that these diagnoses of the problems are locally based: there is a clear sense that things can be better.

### *Technical assistance*

*Donors can help with mechanisms of accountability including the House of Representatives and with decentralization*

What can donors do to help foster improvements in governance and the development of stronger market supporting institutions? Technical assistance is a possible input and donors are already active in judicial reform, and public sector management. But support could also be given to mechanisms that strengthen the voice and impact of those seeking improvement. One area to do this would be to assist the mechanisms of accountability that can create a better-articulated demand for better performance. Support to the House of Representatives to better discharge its oversight functions is one possibility. Helping the processes of decentralization could also contribute to better accountability with respect to public sector resource use. Another possibility would be to help business associations to develop clearer and better-informed advocacy for reform.

# 4

## *Developments in trade policy*

**Many trade barriers dismantled since 1995**

The story of Yemen's merchandise exports in the 1990s is largely about oil which makes up around 95 per cent of total merchandise exports. Non oil exports are dominated by three commodities, fish, coffee and fruits and vegetables. On the services side tourism and remittances are most important. Relative to oil, exports of tourism, agriculture and fish are tiny. The dominance of oil in overall trade figures may be overstated in that oil revenues are generally well measured while trade in other goods and services including labor is bound to be underreported.

On the basis of official data, the fastest growing markets are the non Arab Asian countries due mainly to expanding oil exports to Thailand, India, China, Korea and Singapore. Arabia accounts for some 85 per cent of non oil exports. Yemen's main imports are foodstuffs, especially cereals, sugar and dairy products and these are sourced primarily from Arab countries.

Compared with the barriers to trade which applied only a few years ago, and with the barriers imposed by many large, developed and longstanding members of the WTO, Yemen's formal trade regime is relatively open.

- The tariff structure comprises 4 bands of 5, 10, 15 and 25 per cent.
- No specific rates apply and all tariffs are specified in *ad valorem* terms so that the nominal rate is transparent and constant.
- No export taxes apply.
- Only a few controls apply to quantities imported and exported.

### **Effects of removing trade barriers**

**But some remain and give rise to a range of effects**

Considering how widespread tariffs were in 1995, and the pressures on the government to maintain its revenue base, the liberalisation of trade achieved over a six year period is extensive. But for all that, trade barriers do remain. Their existence and need to administer them gives rise to a range of different effects.

- Revenue is raised.
- Some economic activities are assisted.



- Other economic activities including consumers and exporters are taxed.
- The costs of doing formal business are increased so that informal transactions including illegal trade are encouraged.

### ***Revenue effects***

#### ***Revenue from trade taxes a big share of taxation revenue***

Revenue from taxes on trade makes up 29 per cent of Yemen's taxation revenues and around 5 per cent of total government revenue. From total imports of YR375 783 million in 2001, a total duty revenue of YR1 229 869 million was collected. This implies an average tax collection of 8 per cent.

One explanation for the apparently low customs take is the large number of goods exempt from duty. These exemptions flow from:

#### ***Lot of exemptions from statutory duties...***

- exemptions applying to diplomatic missions and like entities which are typical of tariff treatment in many countries and which do not impact much on revenue;

#### ***...diplomats***

- exemptions approved under GIA licenses for investment projects;
- projects financed by donors;

#### ***...approved investors...***

- imports of certain public authorities such as those covering electricity, water, sanitation and telecommunication; and

#### ***...public authorities and more.***

- a range of additional sectoral exemptions other than those settled through the GIA.

#### ***Exemptions can be administratively demanding...***

Exemptions awarded under GIA agreements are typically firm specific and accordingly impose administrative demands on customs. The administrative complexity caused by these exemptions does not stop at the border and would normally require tests that goods imported under exemption are actually being used for approved purposes and are not being on sold into the domestic market. Even in a developed country with a well resourced customs department, these administrative controls are difficult to apply. In Yemen they are almost certain to put unmanageable demands on the Customs Department. The Department has taken steps to simplify some procedures which are reported to have had positive effects in reducing illegal trade of certain commodities such as tobacco.

#### ***...and probably are one source of illegal imports.***

The extent to which leakage out of exemptions is a source of illegal trade is not documented. Both the size and the composition of such goods by source are unresolved. These sources include goods which bypass border inspection, goods which enter through border points and are smuggled with the complicity of customs and goods which are legally exempt from

duty at the border because of their end use and which are sold subsequently and not delivered to that end use.

***Cars a big smuggled item***

***Partly reflects age and technical restrictions***

***Would a duty reduction discourage illegal importing of cars?***

Cars appear to be among the more commonly smuggled goods. In this case the incentive to smuggle is likely to reflect restrictions on import of cars older than 5 years and on cars with diesel engines, which are imposed on environmental grounds as well as duties and domestic taxes. Cars in a sense provide their own transport across the border and with weak registration enforcement capacity, once an older car makes it onto Yemen's roads, it can easily merge with the existing stock of vehicles. One option for discouraging illegal importing of cars would be to reduce duties to some very low level and raise fuel taxes to make up for any revenue shortfall. This option is attractive on some counts. It would look to prices to modify behavior and would involve shifting the tax onto a measurable component (fuel) and away from one which cannot be easily monitored (cars). However, three qualifications are in order. First, if the main reason cars are being imported illegally is to avoid age or fuel type restrictions, a low duty will not have much impact. Second, raising fuel taxes would have a wide range of effects. To be sure it might encourage a switch to fuel efficient cars. But without some kind of rebate system a fuel tax would penalize producers using fuel as an input such as fishermen farmers and transport operators. Large fuel subsidies have their problems but so would large fuel taxes. Put simply if raising fuel taxes is a good thing to do then it is probably a good thing to do regardless of decisions about duties on cars.

### ***Assistance provided by the structure of tariffs and other barriers to imports***

***Even a low duty structure can deliver high effective protection to some activities...***

***...textiles and clothing***

Even Yemen's relatively low, four band, *ad valorem* based, duty structure with relatively few quantitative restrictions is capable of delivering relatively high protection to some activities. This is because in some cases tariffs on final products are higher than tariffs on inputs so that the top rate of 25 per cent applies to final goods with lower rates applying to inputs. Effective protection is determined by duties on both output and input and even a duty of 25 per cent on output, when combined with a lower rate of say 10 per cent on most inputs, can deliver very high effective protection. The scope for any such variation in effective protection is probably increased by exemptions.

Activities which appear to benefit from this tariff treatment include textiles and clothing, wood and wooden products and basic metal products.

## ***Cost effects***

Who bears the costs of the benefits arising from taxing and otherwise restricting imports? Three different groups may be identified.

- Exporters.
- Import competing activities that receive no assistance from the trade regime.
- Consumers.

### *Exporter effects*

#### ***To tax imports is to tax exports***

A tax on imports is a tax on trade and accordingly a tax on imports is invariably a tax on exports. The benefits of exporting occur in the form of expanding opportunities to import. If the costs of importing rise, as they must when imports are taxed, so then are the benefits of exporting equivalently reduced.

#### ***Schemes to provide exporters duty free access to imported inputs can help***

That is one way exporters are taxed by import taxes, another is through duties on inputs they import for use in production for export. This effect is widely recognised and many countries have established duty rebating or duty deferral schemes in order that exporters might have duty free access to imported inputs.

#### ***Yemen has such a scheme but it does not work well***

Such schemes are complicated and require well established processes. They also require a treasury which is not constrained by cash flow considerations. Yemen has a duty deferral scheme but it does not appear to work well because of both the above mentioned considerations. Options for redressing this problem include the following.

- Improve duty deferral and rebate processes.
- Identify frequently used inputs for export processing and set them at zero rates.
- Build up Free Trade Zone access in other parts of the country besides Aden.

### *Import competing activities*

Activities where duties on inputs exceed output duties are on balance taxed by the tariff structure. Fabricating metal products is an activity where input duties tend to be higher than the duties on output.

*Consumers*

***Duties on luxury goods might fall mainly on rich people...***

Tariffs and other barriers to imports raise the prices of imported goods directly. Prices of goods produced domestically which compete with imports also tend to rise. Duties which apply to so-called luxury goods such as cosmetics and jewelry are sometimes seen as falling mainly on high income people and in some countries punitive duties are imposed on these grounds. Whether such duties fall only on wealthy people is problematic as even the poor consume some cosmetics. And with limited access to the financial system, poor people might sometimes use jewelry as a way of saving and holding whatever wealth they do have.

***...but duties on staple foodstuffs and clothing fall mainly on the poor. High duties on a fish are a puzzle***

When tariffs fall on staple foodstuffs, and clothing, they are likely to impact disproportionately on poor people because these items comprise a large share of household budgets. Relatively high duties also apply to fish. How these duties impact on consumers, especially low income consumers is an important question. Fish products are one of Yemen's largest exports and this being the case it would seem likely that fish prices are more likely to be shaped by export market considerations.

***Taxes on export products hurt exporters and help consumers. Assistance for exports has opposite effect***

Encouragement of export sales by assistance with export infrastructure or sale of industrial export licenses would also impact on consumers. Export taxes normally have the effect of reducing prices on the domestic market. No export taxes apply. A ban on the export of tuna fish was repealed in 2000. These matters are explored further in the sections on poverty impacts.

## **Preferential arrangements**

***All trade with Iraq is free. So is some trade with Saudi Arabia***

Yemen is a partner in two preferential trading agreements; one with Saudi Arabia and the other with Iraq. The first provides that certain goods are free of tariffs and non-tariff restrictions. The agreement with Iraq provides for trade in all goods traded between the two countries to be free. The Government is also pursuing membership of the Gulf Cooperation Council (GCC). In 2002, Yemen joined GCC agencies dealing with education, sports, health and labor. Yemen is not yet a member of the Greater Arab Free Trade Area (GAFTA). Both regional arrangements involve movements to low trade barriers within the groupings. GCC members have recently agreed to form a customs union with a common external tariff of 5 per cent from 2003. In the case of GAFTA, existing members have agreed to tariff cuts for all goods except for a negative list covering certain goods relating to security, the environment and religion.

***Yemen moving to membership of GCC and GAFTA***

***GCC with a common external tariff of 5 per cent would sit easily with WTO membership, but GAFTA arrangements may not.***

These options for regional and bilateral arrangements, need to be assessed in the context of other options open to Yemen including continuing the unilateral reform commenced in 1995 and moving to multilateral arrangements following successful accession to the WTO. Some combinations of these approaches are compatible and mutually reinforcing. Thus further unilateral trade reductions and membership of a GCC with a low common external tariff of 5 per cent as proposed would sit easily with WTO membership.

## **Market access**

Market access restrictions do not appear to be a major issue for Yemen. As a UN designated LDC, developed markets provide preferential access to Yemen exports on many products, subject to rules of origin being met. Yemen suppliers do have difficulties meeting western sanitary standards on food exports, such as fish, fruits and vegetables, to the EU, United States and Japan. However, like most obstacles to Yemen's exports this is a supply side issue which is being tackled through the development of better inspection facilities in Yemen.

## **WTO accession**

***Applied for WTO accession in March 2000***

Yemen formally applied for WTO accession in March 2000. A Working Party was established on 17 July 2000 and this Working Party will meet when Yemen submits its Memorandum on the Foreign Trade Regime (MFTR) currently expected sometime before the end of 2002. The Government has appointed a National Committee for preparation and negotiation with WTO which receives technical support from the Communication and Coordination office with the WTO in the Ministry of Industry and Trade (MOIT).

***Good progress with trade memorandum working under difficult conditions***

By mid 2002 the Committee had almost completed the MFTR. This has been a substantial task partly because of the large number of changes in the regime, the lack of precedent in the form of earlier inventories of the trade and investment regime and not least because of the need to work in Arabic and translate back and forth in English. The payoff to these efforts has been considerable. Not only is the MFTR necessary in the WTO accession process, it is a crucial component of domestic policy transparency. The MFTR provides a basis for policy development across government and having a single agreed statement of policy is one of the more practical ways of helping investors, domestic and foreign.

***MFTR valuable contribution to good policy.***

***'Locking-in' policy reform is one benefit of WTO accession but domestic understanding of the benefits of open trade is a far stronger lock.***

But Yemen's policy development resources are already thinly spread. How much effort should be devoted to next steps in the accession process? To answer this question requires a realistic assessment of the gains from early accession. One possible gain could be the opportunity to 'lock in' trade reforms made over recent past years. Two points might be made about this potential benefit. The first is that several provisions in the WTO including special and differential provisions and the scope for WTO legal contingency protection mean that the 'lock' applied on WTO members is not very tight. The far stronger 'lock' against such backsliding is domestic understanding and appreciation of the benefits of open trade and the costs of trade barriers.

***Binding at low tariffs has both good and bad effects***

When negotiations begin Yemen will probably be asked by other countries to bind its tariff schedule at rates equal or close to existing applied levels. Because low duties are generally better than high ones, there is much to be said for agreeing to these requests. However, two qualifications are in order. First, locking in tariffs could mean that if for whatever reason the Government chose to raise protection it could be pushed towards less transparent non-tariff measures because the option of reducing tariffs had been passed up. Second, because low tariffs can be a source of high effective protection to industries using such goods as inputs, in some cases reductions in effective protections could involve raising low duties. When reducing higher duties on final products are not feasible. Binding at existing levels could preclude this reform option.

## **Institutional settings and trade related technical assistance**

### ***Institutional arrangements for trade policy development***

Trade policy development and administration in Yemen is traditionally shared between the MOIT, the Ministry of Finance (MOF) and the relevant sectoral department — fisheries, agriculture as the case may be. The merger in 1999, of the former Ministry of Industry and the former Ministry of Commerce to form the MOIT, has the effect of bringing one of the main sectoral ministries into the process but given the relative importance of other sectors, agriculture or fisheries for example, amalgamation could just as well have involved them.

### ***WTO accession processes***

Perhaps the most significant step towards processes promoting an economy-wide view has been the committees formed for WTO accession.

At one level there is the general ministerial policies committee, chaired by the Prime Minister, and at another level is the communication and coordination office with the WTO. As noted the job of preparing and approving the MFTR has required senior people from sectoral and line ministries and agencies to take an overview of the trade policy regime as it applies to the entire economy. That said there are several significant gaps that need to be considered from the point of view of WTO members' roles in the accession process and in the design of trade related technical assistance.

- While the processes for preparing the MFTR have been useful and well done especially in light of the operational limitations — the focus on WTO technical requirements does not always match the immediate priority needs for Yemen.
- While membership of the National Committee for preparation and negotiation with the WTO provides for private sector participation, a lack of established processes — in government and amongst private sector chambers and associations — combined with a lack of staff and resources, has meant that private sector and other stakeholder participation in the development and administration of trade policy is not well developed. The private sector requires technical assistance to be able to compete effectively within WTO framework.

***Let Yemen's needs not WTO requirements set the order for institution building***

It is bound to be the case that some of the reforms and institution building required for WTO membership will be high priority for Yemen and would be even if accession were not at issue. Examples include ensuring that customs works efficiently to allow goods to be imported quickly and predictably. Opening key infrastructural services such as telecommunications and financial services, for example insurance are all important. But the requirements of membership are not of equal relevance for Yemen and to 'try to do it all at once' would be counterproductive. For example, reforms to intellectual property are not high priority for Yemen now given existing capacities and institutional arrangements.

When WTO (or GATT) membership was about tariff and non-tariff barriers to trade membership and negotiations were relatively straight forward. Reduced barriers were a good thing for the members doing the trade reduction and for the trading partners. A recent paper by J. M. Finger makes the point that the new areas in WTO (services, standards, intellectual property) deal with behind the border regulations and institutions that establish the fundamental structure of an economy. WTO obligations for these institutions are by nature generic and say little about the needs and priorities of individual countries in developing functioning

economic relations and institutions and the commercial capacities to take advantage of them (Finger, 2002).

### ***Export promotion***

Trade expansion enables people to consume more. It involves doing more importing and doing more exporting necessarily requires more exporting to earn the foreign exchange to pay for those imports. Thus the question becomes what should the Government do to directly promote exports? The Government is proceeding on several fronts. MOIT has a trade information system. A Supreme Export Council has been established and legislation governing various industry chambers and associations has been set up.

By reforming the protection regime, the Government has effectively reduced a substantial tax on exports — the tax on trade imposed through protection. Similarly, its activities on the trade facilitation front especially customs reform are significant export promotion activities.

In establishing the Supreme Export Council, the Government has foreshadowed a more direct role than that of removing barriers of the kind mentioned above. The duties envisaged for the Council include developing plans for export development, determining benefits for export based production and reviewing various trade agreements to achieve advantageous market access. In carrying out these duties the Council has become involved in policy matters which directly affect exporter costs such as the mandatory pricing of transport services.

Other envisaged duties such as arranging benefits for exporters are less practical in the Yemen context. One reason for this is that with pressures on the fiscal balance, budget support for such activities is unlikely to be forthcoming. Even for its existing low levels of service activity the Council funds are meager. Proposals to establish a fund base through an earmarked levy on imports have little attraction because such a levy would amount to one more export tax.

### ***Trade related technical assistance***

***Capacity need to evaluate policy on its merits and not simply whether it would be WTO legal***

WTO accession and membership requires the building of a considerable resource within government. Officials need to know and understand the various WTO agreements and be able to explain them to the Government and the public. However, these rules and agreements are not a reliable user's guide to running a good trade policy. In many cases the agreements are vaguely worded and in some cases, antidumping and special and



differential treatment for example, provide let outs for bad policy. Thus, it is not just a matter of knowing the rules there also needs to be a capacity to discriminate, analyze and apply them towards policies that are in the best long-term interests of the people of Yemen. In these terms a targeted program of trade related technical assistance (TA) would include the following key components:

- legislative review and reform;
- institutional strengthening in MOIT and other central agencies;
- understanding WTO rules, agreements and processes; and
- development of a coordinated approach to trade policy development which builds a capacity to analyze trade policy on the merits, and processes to explain the trade-offs of different policy options to stakeholders.

***Balance of past and emerging TA weighted too much towards WTO accession issues***

Scope for covering WTO related training is well developed. Activities already underway include training provided by the WTO secretariat for officials from the communication and coordination office with the WTO who have also participated in regional seminars. More seminars are scheduled. Similarly, the European Union has provided support with preparation of the MFTR. A significant activity under consideration involves a 5 year project funded by the European Union (EU) to support and facilitate Yemen's WTO accession and potentially involving two long-term advisors to the Communication and Coordination Office. A United Nations Conference on Trade and Development (UNCTAD/DFID) project on assistance for WTO accession has been ongoing since 2000.

These direct WTO related activities need to be supported by activities aimed at building a capacity to analyze policies on their merits — on what makes good policy for Yemen and not just what would be WTO legal. There is also a tendency for trade related technical assistance to focus on trade departments, whereas trade and investment are economy-wide issues. There is scope therefore for training and other activities to extend to other agencies and into the private sector.

The Supreme Export Council will need to become capable of living on revenues from services it delivers to exporters as budget support is likely to remain meager. This points to technical assistance to build up the Council's capacity to provide and interpret relevant market information such as provided through the International Trade Centre. Similarly, there is scope for training services to exporters and marketing firms on packing, presentation and documentation for international markets.

On the question of making best advantage of access to protected markets, UNCTAD has extensive experience in the areas of preferential trade arrangements and has packages and techniques which could be disseminated to the Council as well as to MOIT and private sector firms and groups such as the various chambers and associations.

The Centre for Information in MOIT has data systems covering such matters as trademarks, trade registration, branches of foreign companies and classification of commodities. The Centre is endeavoring to provide an internet based service to serve local, regional and international traders and investors.

# 5

## *Trade facilitation*

***Costs of doing business in Yemen seem unnecessarily high.***

It seems to be a recurring theme that the costs of making transactions in Yemen are high. Be it buying land, taking fish from a boat in Yemen to a port in Europe or hiring a truck, processes are complex, outcomes unpredictable and transactions are invariably expensive. Similar concerns and claims arise in most other countries where IF Diagnostic Studies have been prepared. Indeed one of the main differences between poor and wealthy countries is in the size of the costs of doing business. Earlier sections have focussed on what the Government — with the assistance of donors — can do to create a low transaction cost environment. In some instances this turns out to involve government agencies stopping doing some of the things they now do. But in most cases a low transaction cost environment requires considerable building of institutions and human capital.

***Many transactions in the informal economy...***

The question here is what needs to be done — and not done — to help facilitate international trade. Yemen's international trade seems to occur at two main levels. At one level is formal documented trade which passes through official channels. At another level is informal trade where no official taxes are paid. Informal trade can involve high transaction costs. Extra payments may be required and transport tends to be by way of clandestine shipments often in small consignments. The normal features of modern trade such as quality and standards guarantees and after-sales service are typically not attached to such goods. That people in Yemen bother so much with such a costly way of doing business indicates just how high transaction costs in the official system must be.

***...costs of official system even higher***

There are four main ways a government can help establish a low cost trade facilitation environment.

- International trade involves goods — exports and imports — crossing national borders so an effective agency and processes at the border by way of a modern customs department and other inspection requirements is essential.
- International trade typically involves standards covering such things as quality, health and safety. In some cases trading partners require Government oversight of standards. In all cases there is an important

role for Government in establishing an environment where firms can demonstrate and deliver to specific standards.

- International trade typically involves a transaction where cash on delivery is impractical. The rules governments set for operation of the banking sector can play an important role in facilitating such finance.
- Exporters are typically disadvantaged by some of the regulations created to inhibit imports — such as duties on their imported inputs. In the event that such inhibiting instruments cannot be removed overnight there are trade facilitation measures which can be applied to reduce the impact of these barriers on exporters — such as duty drawback schemes or free trade zones.

These matters are canvassed in the following paragraphs of this section. Other essential ingredients for trade facilitation such as an efficient transport sector are discussed in chapter 7.

### ***Customs***

#### ***Yemen customs has a tough job***

The Yemen Customs Authority (YCA) faces many pressures. Long and porous land and sea borders make policing of illegal trade difficult. Low pay and civil service regulation restrict flexibility of work practices and rewards. Remote border posts lead to inconsistent interpretation of customs law and practice.

#### ***Doing it better in recent years***

In the face of these considerable difficulties, the YCA has made considerable headway in recent years. And the principal goals set by the Chairman of the YCA for 2003 are to increase revenue and reduce illegal trade. One of the most significant achievements has been the successful installation of the Automated System for Customs Data (ASYCUDA) electronic data processing system. This joint project of UNCTAD and the United Kingdom's DFID involved installation of ASYCUDA at Sana'a airport and in the YCA head office through 2001. The system extended to the Port of Hodeidah in June 2002 and will be installed at the Heradh border with Saudi Arabia later in 2002.

#### ***ASYCUDA a big help***

<p><b><i>Processing time reduced...</i></b></p> <p><b><i>...using risk analysis to move away from 100 per cent inspections</i></b></p> <p><b><i>Brokers being bought into the system</i></b></p>	<p>The impacts have been dramatic. Processing time at the airport has been reduced days to less than three hours in most cases. Furthermore, the processes required to operate ASYCUDA have encouraged a professionalization of the YCA which has started to extend across other areas of the authority. Risk analysis is now being used to move away from 100 per cent inspections. As the system absorbs more information about the trading habits of traders and brokers from the declaration database, and as traders and brokers come to be increasingly confident in the integrity of the system, green channel processing will increase. Customs brokers are being bought into the system and both traders and brokers have been provided software to enable them to enter data electronically into admission application forms.</p>
<p><b><i>More to be done...</i></b></p> <p><b><i>...documentation locked in the past...</i></b></p> <p><b><i>...dispute process slow...</i></b></p> <p><b><i>...value of exemptions diluted by extra steps in customs.</i></b></p>	<p>All of that said, a number of obstacles to further improvements in trade facilitation through customs remain. One such obstacle is the anachronistic processes for documentation which have not kept pace with electronic data systems. Original documents are demanded and defects in documentation can lead to requests for informal fees. Goods in dispute may be imported subject to payment of a bond. In the event of the bond being resolved in favor of the importer, repayment of the bond is slow and if the dispute lasts longer than 12 months bonds are typically foregone. Invoices need to be certified by the Consulate representative of Yemen in the country of origin. Disputes over certificates of origin are reported to be common. The value of exemptions such as those going to investors registered with the GIA are considerably diluted by the multiple steps required to satisfy customs that the exemption is valid. Exempt importers report incidents of paying a bond to have their goods released and then spending considerable resources clawing their bond back.</p>
<p><b><i>Law being amended to pick up WTO valuation code and to keep pace with move to a paperless system.</i></b></p> <p><b><i>Need to restructure customs to reflect changes in methods</i></b></p>	<p>Dismantling these requirements is not easy because the existence of paper documents and the need to approve them has in the past provided a basis for requesting informal payments. The next challenge for the YCA is one of restructuring which might be a combination of retrenchment and redeployment.</p> <p>A new customs law was drafted with IMF technical assistance in 1997. This draft law is currently being considered with a view to ensuring it covers WTO related issues particularly the WTO agreement on valuation. Other issues relevant to this draft law include specific provisions to make electronic documentation and signatures acceptable. There is also a need to strengthen customs inspection capacity beyond the border, for example to expand competence to undertake post entry audits.</p>

***Need for formal recruiting and training systems to support financial autonomy***

Three hundred ghost employees were recently taken off the staff list and according to senior management only half of headquarters staff are active in customs duties. Formal recruitment and training policies are needed and the questions of linkages with civil service pay and conditions needs to be addressed. Currently staff remuneration is reported to be competitive with private sector pay but through various allowances and not transparent salaries. Similarly the question of financial autonomy is an issue with MOF approval apparently necessary for all YCA expenditure over YR 25 000.

## **Standards formulation**

Yemen Standards, Metrology and Quality Control Organization (YSMQCO) was established, with assistance from UNDP and UNIDO, under the Specifications, Standardization and Quality Control Law (No. 44) in force from October 1999. The Organization is responsible for both formulating technical regulations and standards of products and processes and for assessing and enforcing conformity of importers, exporters and manufacturers with these regulations and standards. YSMQCO is an autonomous agency reporting directly to Cabinet.

***Standards enforcement unnecessarily punitive***

On the trade side, it is useful to distinguish between standards requirements imposed by Yemen for imports and those demanded by other countries for exports from Yemen. In order to be cleared for entry into Yemen by Customs, importers must present appropriate health, agriculture, testing and origin certificates. Even where documentation is correct YSMQCO staff inspect and sample imports on a regular and random basis. These inspections duplicate customs work and raise opportunities for informal charges. According to the Vice-Director General of YSMQCO risk selection is used so that conforming importers are inspected less often.

***Given Yemen consumers' exposure to uninspected goods the intensive inspection of formally imported goods seems unbalanced***

Traders have not complained to the IF mission about the current procedures for testing imports. The Wharf Manager at Ma'alla Port stated that samples of meat, sugar and wheat were tested within two hours. Inspection agencies operate 24 hours a day. Given the practical impossibility of enforcing standards across Yemen's large number of small firms and the large volume of goods, apparently entering through unofficial channels, the benefits flowing to consumers from the relatively intensive inspection of legal imports are probably small.

***Moves to self testing and commercial testing for fish exports. But still unnecessary and costly certification by Fisheries***

Most fish exports are tested in the Ministry of Fishwealth laboratory in Aden. Some export markets require certificates from both the Ministry and YSMQCO. The laboratory is accredited by the EU and inspected by its officials every three months. The Ministry of Fishwealth has licensed 15 companies to export fish, however, only seven of these companies have been accredited by the European Union to export fish to the European Union. Companies must have premises and equipment that meet Hazard Analysis Critical Control Points (HACCP) standards. The Burum fishing and marketing company has its own laboratory and has invested significantly in new equipment to meet the standards requirements of a major EU customer. In addition to being licensed, each export consignment must be certified by the Ministry of Fishwealth. Such certification is reported to involve delays and requests for extra payments.

A March 2002 draft UNIDO report on the food sector noted that YSMQCO food laboratories do not meet international standards of laboratory practice. The report recommended that the Organization's enforcement functions be separated from its standards formulation function in order to avoid a conflict of interest and the capacity of YSMQCO be strengthened so that the organization can be accredited by the European Union to certify Yemeni exporters and laboratories to meet European Union standards.

***Barriers to entry to road and air freight bite on fish exporters***

Many of the blockages to efficient trade facilitation have to do with transport and the policy and infrastructure weaknesses hampering performance in that sector. High value chilled tuna exports are regularly put at risk by unreliable road transport and an airline system focussed on passengers and which treats perishable freight in second order (see chapter 7).

***Perishable goods exports also hurt by Saudi imposed barriers***

Not all trade facilitation problems reflect Yemen conditions. The requirement by Saudi authorities for goods to be transferred from Yemeni trucks to Saudi trucks at the border reduces the value of perishable products such as bananas by around 10 per cent and raises logistics costs by over 20 per cent of the landed price in Jeddah.

***Unnecessary restrictions on insurance access limit insurance options***

Importers are prohibited from using foreign insurance firms to insure their consignments. Local insurance firms lack the confidence of many exporters who frequently elect not to take insurance. The lack of enforceable debt security largely precludes any long-term lending except among very large corporations. Trade payments are reported to be frequently financed through moneychangers.

## The Aden Free Zone and proposed industrial estates

### *Industrial estates*

#### ***Three industrial zones identified***

Proposals are firmly on the table to establish several industrial estates. The rationale for these proposals is that in a smaller and focussed area such as an industrial estate it will be easier to offer investors a best practice regulatory and infrastructure regime. Three sites have been identified — one is a 70 km<sup>2</sup> bare site at Hodeidah, a second site of 20 km<sup>2</sup> is at Lahj close to Aden and the third site is at Mokalla.

How might the configuration of these areas as an industrial zone enhance their attractiveness to investors? Several reasons might be identified why this could occur. First, it might be easier to clarify and guarantee the security of land title within a well defined area such as a zone. Second, it might be possible to apply and administer a reliable regulatory regime within such an area. However attractive as these considerations are, they are both ‘might be’ and would depend on the conviction and commitment of local government agencies and the zone managers for successful delivery.

#### ***Establishing free zones might also involve special policy treatment***

In the event that investors failed to find an industrial zone established along these lines attractive, the question would arise as to whether special conditions should be granted to firms in the zones. One set of special conditions would be to establish the zones under the Free Zones Law. Under this law, goods would be able to enter free of duty and investors would enjoy a 15 year tax holiday, renewable for a further 10 years.

### *Duty free zones*

#### ***Performance of Aden Free Zone does not provide a basis for rushing for more***

The only free zone to be designated so far is an area of 30 000 ha in Aden. The Yemen Public Free Zone Authority is responsible for developing and managing this free zone and any others which might be established in Yemen. The Authority has an agreement with Yeminvest, a private company which is 60 per cent owned by the Singapore Port Authority to develop, manage and operate a container terminal and a free zone within the Aden Free Zone. In October 2001 Yeminvest completed the infrastructure development of a 30 ha estate called Distripark. The Yemen Public Free Zone Authority is responsible for evaluating the licenses of investors in the Distripark, regulating, companies, evaluating building permits and so forth. About 30 investors operate in the Act mainly in shipping related services. About half the area of Distripark has been taken up by investors.



The general impression is that the ACT has performed well and attained a high level of turnover in a competitive regional port environment. But the Free Trade Zone has not performed to expectations.

- Some 28 000 ha of land await development and this is apparently not happening because the owners of the land value it more highly than the current crop of investors. This at least augurs well for the future in that there is a body of informed opinion that expects investment in the zone to have a good return.
- Even with the added security over land that might be expected from a zone borrowing is still difficult.
- Electricity costs are high.
- While the Free Zone Authority has jurisdiction over the zone other organizations have commercial interests in the zone — the Yemen Ports Authority, the Free Zone Authority and this can give rise to confusion.
- The objectives facing Yeminvest and those facing the Government are not completely in harmony.

## **Institutional settings and implications for technical assistance**

### *Institutional settings*

Three themes which persistently arise in the preceding discussion are:

- obstacles caused by barriers to entry;
- obstacles reflecting overlap of government services; and
- gaps caused by unclear allocation of funding and responsibilities.

***Barriers to entry in road and air transport cause problems.***

***So does duplication of inspection at border points***

Thus in the first instance, barriers to entry into air and road transport unnecessarily raise the costs of doing business. While these obstacles, particularly those applying in road transport, are widely recognised within government, the processes to undo them seems to be slow and ineffective. Similarly there appears to be unnecessary inspection at the border and at roadside by agencies of the government with different mandates — customs, security, standards for example. Duplication and overlap seems to be an issue slowing down development of the Aden Free Zone. These occurrences are bound up in the operation of the civil service. The poor quality of many roads and the road blockages that occur appear to reflect the ambiguities flowing from decentralization about who should do what.

The Aden Free Zones Authority employs 300 people to service 40 investors – Jebel Ali Free Zone has 1 600 investors. Some of the functions performed by the Authority could be undertaken by private developers and operators. Performance conditions could be set out in the developer/operator agreements.

The Authority needs to develop its regulatory capacity to set goals, negotiate agreements and audit the performance of private developers/operators. Functions the Authority elects to share among different agencies need to be clearly specified in memoranda of agreements and the developer/operator agreement.

#### *Technical assistance*

One of the technical assistance success stories is the ASYCUDA project in Customs funded by DFID and supported technically by UNCTAD.

An important on-going technical assistance project concerns the European Union project at the Aden Free Zone. This project will address the problems currently being encountered in the regulation and promotion of the Zone. The project will develop the capacity of the Aden Free Zone administration to promote, regulate and plan the Aden Free Zone development. It will involve provisions of a chief technical advisor in Aden and is expected to commence before end of 2002.

The World Bank is also working with the Government to build on the competitive advantages of potential regional growth centres including Aden. The intention of these activities is to identify strategies and actions that will play to Aden's strengths and build a prosperous competitive regional economy. The President has committed to Aden as the 'economic growth pole' for the country. Strategic priorities have been identified including improving infrastructure and communications and limiting bureaucracy.

Modern transport systems increasingly rely on transport logistics information systems to manage movement of goods. In this regard the experience of UNCTAD with its advanced cargo information system is relevant.

Other technical assistance ideas flagged in the discussion include the following.

- Customs:

- 
- strengthen human resource development by providing training (particularly, valuation, classification and risk management) and enhancing recruitment and promotion;
  - decentralization from Ministry of Finance; and
  - modification of law and regulations to allow paperless processing.
  - **Border points:**
    - reduce overlap between agencies;
    - enhance cooperation with Omani and Saudi border authorities.
  - **Industrial estates:**
    - clarify reasons why an industrial estate would attract investment when a standard configuration of land, infrastructure and regulation would not;
    - clarify role of funding, ownership and participation of relevant agencies vis-à-vis the private sector. Is there an immediate role for privately owned industrial estates? How should public owners and regulators participate in estate development?
    - if net benefits of public industrial estates identified, then examine development costs of suitable sites and test the market for private sector developer and investor interest;
    - draft appropriate regulations and developer agreements reflecting private sector risks and returns.
  - **Free Zones:**
    - establish why land prices are so high and investment activity so low outside the Distripark and ACT; and
    - clarify roles and responsibilities of different agencies vis-à-vis the private sector;

# 6

## *Poverty analysis*

### **Measuring poverty in Yemen**

***Considerable efforts to measure poverty.***

Considerable resources have been devoted by the Government and United Nations agencies to measuring and monitoring poverty. A Poverty Monitoring and Analysis System operates in the Central Statistical Organization with UNDP support. In 2002, the World Bank prepared a detailed review and analysis of the evidence on poverty in Yemen.

***Some 18 per cent of people cannot afford minimum calories needs***

Based on these analysis of the evidence, including particularly the 1998 household budget survey, some 18 per cent of Yemen's population cannot afford minimum calorie requirements. Forty two per cent of the population live below a poverty line expressed in terms of a minimum expenditure on non-food items. Many people not currently in poverty, are vulnerable and according to study analysis a 10 per cent fall in incomes would see another 1 million in poverty. Similarly, a 10 per cent increase in incomes would lift about 1 million people out of poverty.

***Poor people have little education and a large number of dependent children. Having a job is not a defence against poverty  
Remittances help***

Poor people in Yemen tend to live in large households, with a lot of dependent children and with a single middle aged breadwinner. There is a strong link between poverty and low levels of education. Being employed as a wage earner is not a defence against poverty. Of those rural households in poverty, most earn their primary income from agriculture. Of the urban poor the main source of income comes from jobs in the public sector. Remittances are significant source of income for about 1 million people in rural areas and about 300 000 people in urban areas. Families with significant remittance income are better off than most.

Total food expenditures comprise about 48 per cent of expenditures for poor when people and about 30 per cent of total expenditures for urban people in the upper income quintiles. Poor rural people spend about 65 per cent of total expenditure on food while people in upper quintiles spend 57 per cent of total expenditure on food.

### *Assessing policy impacts on poverty*

In order to assess the impact of a policy change on poverty levels it is necessary to know three things. First, what goods and services are affected by the policy change? Second, what happens to the prices of these goods and services? And third, how does production and consumption of these goods and services vary among households according to their income? To answer these questions household budget data were arranged by deciles. The first or lowest decile contains the 10 per cent of households with lowest expenditure levels and similarly for each of the subsequent deciles. This arrangement enables households in each decile to be described in terms of relative income levels income along with sources of income and the level and composition of expenditure. This information was assembled for all Yemeni households and separately for rural and urban households.

In urban areas the poorest people spend about 48 per cent of total expenditure on food while the upper income groups spend about 30 per cent. The equivalent figures for people in rural areas are 65 per cent and 57 per cent. Housing expenditures, at 17 per cent of total expenditure, are the largest expenditure item for poor urban households while for poor rural households cereals, at 26 per cent are the largest single expenditure item.

Consider, for example the impact of an increase in agricultural productivity. Three separate impacts might be identified. First is the impact on that part of production being sold by agricultural households. The second is the impact on that part of production that is destined for home consumption. The third is the increase in rural wages coming from an increased demand for labor services. According to the results, for households in rural areas the biggest impact comes from increased production that is self consumed by the household and these gains increase through deciles. All households win in this scenario and those households that produce most gain most.

In urban areas around 11.5 per cent of women of working age actively participate in the labor market. In rural areas this percentage is 26 per cent. The analysis tested the impact of an increase in the labor market participation of women. Based on a number of explicit assumptions about age, sector and wage levels the analysis indicates that women in poor households have a higher probability of labor market participation. The sectors absorbing them would be non public services (80 per cent), manufacturing (15 per cent) and agriculture (5 per cent). Since non public services are concentrated in urban areas the impact of greater labor force participation by women would be greater in urban areas.

Remittances also play a major role in alleviating poverty. It seems the probability of receiving remittances initially decreases with age then increases for household heads older than 56 years. The results indicate that remittances serve as informal safety nets and are positively related to adverse shocks such as disability or unemployment of a household member.

## 7

***Sector studies***

The approach so far has been in economy-wide terms. But policy issues and administration arise in practice at a sector level. For this reason the study team carried out six sector case studies. These studies drew on extensive sector work conducted by the World Bank through 2001 and 2002. Sectors were selected on the basis of their size and importance in providing livelihoods for people in Yemen (agriculture and fisheries), their scope for increased export earnings (labor remittances and tourism) and their importance in shaping a low cost environment to do business in (telecommunications and transport).

**Fisheries**

*Fish resource vast  
management  
resource weak*

Yemen's fisheries wealth is considerable. It reflects a long coastal strip of 2 500 km, warm waters rich in nutrients, widespread islands and territorial waters in the Red and Arabian Seas and the Gulf of Aden. This vast natural wealth is not complemented by substantial institutional wealth in the form of effective systems of fisheries management needed for the sustainability of a common property resource facing demand pressures. Fishing is a major source of employment and nutrition and over the past 15 years has played an important role in alleviating poverty. Currently some 400 000 people earn their livelihoods from fishing or fish related activities. Pressures on the fisheries resource are increasing as a consequence of rapid population growth, rising export demand and improved fishing equipment including larger boats and infrastructure development some of which reflected past technical assistance. Industrial fishing boats have operated in Yemeni waters for the past 15 years through country-to-country agreements. Illegal fishing activity is reported to occur but there is not accurate data about its extent.

*Demand rising*

## ***Industry structure***

***Small scale sector takes about 80 or 90 per cent of catch - large industrial boats the rest***

Fisheries exports have been growing rapidly and fish has become the second most important export activity. About 37 per cent of these exports are made through industrial fishing boats which make little demand on shore facilities or other Yemen resources. The rest of Yemen's fish exports originate from owners of small boats from artisanal fishing communities. Access to these export markets enhances incomes of these artisanal fisherman. At the same time rising export demand combined with relatively high duties on imported fish is likely to be putting upward pressures on the prices of fish on the domestic market with implications for poverty levels among non fishing families depending on fish as a source of nutrition.

***Not much regulation of small boats - some regulation of large***

Small scale fisheries which catch an estimated 80 per cent of total fish production are essentially not regulated. Industrial fishing capacity faces catch limits through country to country agreements and through licensing of foreign and local industrial vessels. But monitoring is weak and the catch limits bear no relationship with contemporary assessments of fish stocks because there are no such assessments.

The structure and nature of Yemen's fisheries resource is summarised in table 7.1.

### **7.1 Structure and nature of Yemen's fisheries resources**

<b><i>Type of fish and fishery</i></b>	<b><i>Animal yield</i></b>	<b><i>Main users/fishers</i></b>	<b><i>Management system</i></b>	<b><i>Emerging pressure</i></b>
	Tonnes/annually			
Cuttle fish – Gulf of Aden	4–10 000	Mainly by foreign industrial vessels for export	Not managed other than by the number of foreign vessels licensed to fish	
Shrimp – Red Sea	500–1 500	Mainly by foreign industrial vessels for export	Closed season to protect spanning in summer months. Indirect control through number of vessels licensed	Under pressure from industrial and artisanal fishing
Lobsters – Gulf of Aden	400–600	Mostly small scale fishers for export	Managed by corporation which restricts licenses	Under pressure from unregulated small scale fishing
Demersal species – continental shelf of the Red Sea	20–40 000	Mainly by foreign industrial vessels and small scale fisheries for local consumption and export	Some management measures to exclude industrial boats from coastal areas are regularly ignored	Under pressure from mainly small scale fishing (10 per cent) and industrial fishing (30 per cent)

(Continued on next page)



## 7.1 Structure and nature of Yemen's fisheries resources (continued)

<i>Type of fish and fishery</i>	<i>Animal yield</i>	<i>Main users/fishers</i>	<i>Management system</i>	<i>Emerging pressure</i>
	Tonnes/annually			
Large pelagic species (tuna)	10–20 000	Exclusively by small scale fisheries for canned and fresh export	Not managed	
Small pelagic species (sardines and anchovy)	30–50 000	Exclusively by small scale fishers for local and export markets	Not managed	Generally more abundant and under less pressure

From 1991 to 2001, no reliable catch statistics were collected. Work to remedy this was initiated in 2001. The SFYP estimated fish resources of about 850 000 tonnes which according to the SFYP would allow annual production of between 350 000 tonnes and 400 000 tonnes compared with the 135 000 tonnes reported to be utilized in 2000. These figures invite the generalization that the resource is not under pressure. Such a generalization would be misleading. First, both the stock and catch figures are unreliable. Second, there is considerable differences across fisheries. According to the FAO, Yemen's most valuable fish population — rock/spiny lobster, cuttlefish, shrimp and demersal fish (bream, snapper etc) appear to be over fished and are under pressure (FAO, 2002). These pressures reflect:

- weak fisheries management systems and institutions;
- the surge of export demand;
- assistance to small scale fisheries in the form of inputs and infrastructure; and
- continuing high levels of industrial fishing boat activity.

### ***Weak management systems and institutions***

Yemen's most critical challenge for fisheries is to develop effective fisheries management systems. A few seasonal restrictions and catch limits apply but they are not well informed by fisheries stock information which is largely non existent, and are in any event not well enforced because of a lack of resources of fisheries management.

#### ***Better knowledge of the resource and demands on it a must***

Central to any well based management system is a sound knowledge of the resource. In Yemen this knowledge could be accumulated through support with surveys, regular monitoring of catches and other techniques for stock assessment. Given the importance of small scale fisheries and of the lobster

resource, it would be logical to focus initial stock assessment and management efforts in small scale fisheries involved in high value lobster.

***Look to local management***

Over time there is much to be said for encouraging management systems based around local arrangements. In the absence of information on stocks, initial steps such as licensing small scale boats would have benefits in terms of raising some revenue as a charge for access to the resources, establishing a basis for monitoring current activity and establishing a basis for management mechanisms down the track.

***Consider greater user charges***

Despite the size of the fisheries resource and its recent contributions to government revenue and exports, key activities such as research, management and surveillance and quality control have suffered from inadequate funding. In some countries these activities are supported by arrangements which allow beneficiaries to be charged through compulsory levies or contributions. Yemen recently introduced measures whereby quality control services are charged for.

***Upsurge in export demand***

***Other fisheries depleted.***

On the export side pressures on the resource are increasing as a consequence of improving shore infrastructure and transport, the falling stocks in other fisheries servicing Europe, and until 2002, relatively low priced access provided for large industrial fishing boats. Prohibitions on the exportation of certain species of fish, one of which was tuna, were repealed in 2000.

***Some policies make exporting difficult***  
***–restriction on airlines***  
***–certification***

Considerable barriers to export exist. Infrastructure for landing and storing fish is poor, transport to international terminals is slow, expensive, and unreliable, storage and handling at industrial terminals is limited and international transport access is erratic. Furthermore, the human and systems infrastructure to support health and quality standards is poorly developed with unnecessary and slow certification of exports frequently required.

While the surge in exports in recent years appears to be partly demand driven, some part of it does reflect an easing of supply factors. These supply factors include:

- removal of the ban on tuna exports;
- subsidies for fuel used by small fishing boats;
- subsidies for infrastructure development;
- support for a quality testing laboratory at Aden; and

- free access to the fishing resources.

On balance it is unlikely that export expansion is being artificially encouraged to a point that threatens the resource. But on the other hand assistance including donor assistance to promote exports needs to consider weakness in the management regime and the vulnerability to collapse of key fish resources.

### ***Assistance to small scale fisheries***

***Considerable TA support over many years.***

International agencies have worked with successive governments to support the development of Yemen's fisheries since the 1980s. World Bank and FAO projects focussed on providing fishing communities with inputs and infrastructure as a means of enhancing domestic food supply (FAO, 2002). Some exports, mainly lobster, also occurred. Experience with these projects highlighted some of the dilemmas with the design of assistance for fisheries. Help for fishermen in the form of boats, engines and fishing gear may lead to excess fishing effort. Help with infrastructure including landing facilities, roads and communication might create similar pressures but at least provides expanded opportunities to get quality product to consumers at lower marketing costs. These experiences led to a recognition at the local level of the need to change the direction of development away from harvesting methods and towards management methods (FAO, 2002).

***Dilemma when support for fisheries inputs strains resource***

***TA for management as important as TA for production***

### ***Relative impact on resource of industrial fishing boats***

***Rapid growth raises questions about...***

By around 1998 the number of industrial vessels had grown steadily — to around 144. The presence of these (mainly foreign) industrial vessels raises the following issues and questions.

***...revenue...***

- Sale of access to industrial vessels is a potential source of revenue to the Government. How large is this revenue? How is the number of licenses determined? How is the sale price struck?

***...impact of exports on domestic prices.***

- Do expanded export sales raise the domestic prices of fish? If so how are these price raising effects absorbed by small boat owners (as revenues) and consumers of fish (as expenditures)?

*Sale of fishing licenses to industrial boats*

***Sale of industrial fishing licenses on a negotiated basis had several strengths but lack of transparency is a problem.***

Sale of industrial licenses appears to have been conducted on an individual negotiation basis — at least until the end of 1995. Such a system had some advantages. It enabled the authorities to test the market and charge what it would bear. In some cases individual negotiation enabled tie-in sales and purchase of license through contributions of goods and services (from the fishing company and from the Government of the fishing company's home country) rather than money. But such transactions have a downside. The diminished transparency complicates government accounting and has given rise to perceptions that not all revenues go to the state. Such concerns may have been triggered by observed sales of quota in the market place at prices higher than those implied by revenues to the Government. In the event, in 1999 the authorities took advantage of these revealed values of licenses to raise the price of industrial licenses. At the same time the formula for sharing marginal increases in catch between vessel and government was changed to a lump sum standard agreement formula. As a consequence the number of industrial vessels is reported to have fallen from 144 to 73. In the absence of information on the resource stock, this seems to have been a sensible pricing experiment by the Ministry of Fishwealth. For one thing it provides some transparency. For another it yields information on the responsiveness of fishing effort to price. However whether the revised pricing policy is delivering effort and prices close to sustainable catch cannot be determined without knowledge of the stock.

***Recent steps to raise license fees on basis of transfer prices makes sense***

*Effects of increased exports on employment, incomes and poverty*

If there is no pressure on the stock, the main effect of expanded exports will be increased incomes to Yemen — from sales of the licenses and from the higher returns to owners of small boats. If the size of the of small boat fleet was fixed in the short run, and imported fish faced a relatively high tariff, the shift in catch from domestic to export markets could raise domestic prices. As tariffs on fish imports are relatively high if the stock is being challenged, extra exports are likely to come at the expense of supplies to the domestic market and a rise in domestic prices. On the other hand the size of the small boat fleet does not appear to be fixed even in the short run and it is reported to have increased three fold between 1991 and 1999.

***What effect is policy having on shifting fish to the export market?***

Thus policies towards exports (and imports) have important implications for resource sustainability, government revenues and incomes, employment and poverty reductions in regional areas.

## ***Institutional settings and implementation for technical assistance***

### *Institutional settings*

***Ministry of Fishweal th still saddled with commercial ventures***

Fisheries institutions are built around the Ministry of Fishweal th and its various agencies and local cooperatives including an emerging union of cooperatives. Agencies under the Ministry of Fishweal th are variously responsible for marketing, management, extension and research. The Ministry still owns several canneries which are hangovers from the days of centralised management (FAO, 2002). The Coastal Fisheries Corporation (CFC) was originally established to manage the production and trade in rock lobster. In 2002 three private companies were licensed to export lobster. The National Corporation for Services and Fish Marketing (NCSFM) was established to buy and sell fish at auction, collect marketing fees and provide a range of marketing services. However according to FAO most of these functions have been taken over by the private sector (FAO, 2002).

***Poorly resourced to provide extension and management***

Extension services are currently provided at a low level through the Marine Research Science Centre (MRSC). The FAO report suggests extension services should be located in the Ministry. Another possibility would be to explore the scope for other sources of extension services such as might be provided through purchasing and processing firms. There are also important questions related to the organization, focus and funding of research. Finally the Ministry is responsible for two large canneries and a number of cold store, ice making and other facilities. Efforts to privatize these entities have had limited success and greater use of management buy-out approaches seems to be a sensible option.

Fisheries cooperatives throughout Yemen are reported to be active and well supported bodies. In 2000, representatives of fishery cooperatives and the Ministry of Fishweal th agreed to form a union of fish cooperatives. Given the weaknesses in the existing civil service structure, the need to harness private sector interest in sustainable resource management and the advantages of doing this on a local fishery basis it seems sensible to harness the power of cooperatives (FAO, 2002).

### *Technical assistance*

Technical assistance is currently being suggested by FAO and other donors in the following areas:

- Assistance for the design and construction of harbors and jetties involving feasibility studies of local demography, weather patterns and fisheries resource.
- The role of women in fisheries has been an important part of the Fourth Fisheries Development Project (1996–2000) and the Ministry has submitted provisions related to women in coastal areas.
- The tuna fishery provides a special management issue in that tuna as a migrating fish is managed at an international level by the Indian Ocean Tuna Commission (IOTC). Yemen has not actively participated in this process and needs to be able to establish rights to its share of the revenue (FAO, 2002).

In addition to the general recommendations made in this sectoral overview, specific TA in the following areas warrants consideration.

- The Ministry of Fishwealht, in cooperation with the World Bank, other donors, the newly established Fisheries Union and cooperative and management training organizations within and outside Yemen should explore the feasibility of creating a program of permanent training for cooperative managers, staff and members. Such program should include such subjects as management training and business administration. But the program could go further, and also include a permanent fishery extension component that would focus on fishermen training, on the design and testing of new boats, gear and quality improvements. The cooperatives, the private sector and public sources may finance such permanent training program.
- The Ministry of Trade and Industry and the Ministry of Fishwealht, in cooperation with the Yemeni Export Council and the Yemeni Civil Aviation Authority should initiate a study (possibly supported by donor funds) to develop a long-term strategy for perishable air cargo shipments from Hodeidah, Aden, Ryan and Sana'a airports.
- A survey of shrimp and lobster stocks should be executed and analysed by a foreign research institution in cooperation with Hadramaut University.
- The Ministry of Fishwealht should initiate a study, in cooperation with FAO, to assess how to redevelop the local capacity for fisheries research, and to design the principles, basic operations and institutions that should be involved in a future fisheries management system. With reference to management of small-scale fisheries, it should particularly assess the potential of an area based management protocol, in which the cooperatives and the private sector (lobster) may play a key role, and develop pilot projects to test such management approach. It should also explore how industrial fisheries management systems and those

regulating small-scale fisheries would share and separate their responsibilities.

- The Ministry of Fishwealth pilot program (with FAO and other donor assistance) of collection of small-scale fisheries data could be expanded to eventually cover the entire country.
- The Ministry of Fishwealth, in cooperation with all donors involved, should coordinate current efforts to strengthen fisheries surveillance, notably with respect to industrial fisheries. The Ministry may also assess what role surveillance should play, if any, in controlling small-scale fisheries, and which organizations (cooperatives, local police, others) should be involved in such efforts.

## Transport

*Many obstacles to a modern accessible transport system*

There are many obstacles to the emergence of a modern and accessible transportation system in Yemen. People are poor, many parts of the country are mountainous and the country is sparsely settled with many isolated communities. Experience in other developing countries strongly suggests that investment in transport and communication systems, and in roads particularly, is one of the most effective ways of making it possible for people in poor and isolated communities to join into the wider community's social, political and economic activities. The Government has recognised this importance in the SFYP and in the PRSP and has set ambitious targets for transport sector growth of 10 per cent. However, sector growth of 2.2 per cent in the period of the SFYP falls well short of this target.

*Better transport and communications a proven way of enabling poor communities join into social and economic activity*

*Roads bad – air fair – ports good*

Yemen has about 6 586 km of paved roads, 3 915 km of gravel roads and about 60 000 km of dirt roads. About half the paved and gravel roads are in fair to poor condition and need strengthening and rehabilitation. This is one of the lowest percentage of paved roads in the world — comparable to Nigeria and Rwanda. In the case of air transport, the SFYP noted the costly and poor quality of ground services, lengthy loading and unloading operations, poor competitive capacity of the national carrier and its antiquated fleet. Sea transport has fared better. Well located, fine natural harbors at Aden and Hodeidah have benefited from private investment and accompanying know-how so that port efficiency is good in an intensely competitive regional environment for port services.

***Some obstacles to investment in transport are policy induced***

Why is it that road and air transport have fared so poorly in terms of new investment? The physical obstacles mentioned earlier are only part of the story. There are also unnecessary policy created obstacles which severely inhibit current performance and discourage new investment. These include cartel arrangements for road transport — including passenger and freight carriage and barriers to entry into airline related services.

### ***Road transport***

***Poor roads not inhibiting rapid growth in vehicle numbers...***

Notwithstanding the limited and only slowly improving state of the road resource, the number of registered vehicles has been increasing rapidly — at about 6 per cent per year. This figure is likely to be on the low side as it is widely considered that there is a large number of unregistered smuggled vehicles on Yemen's roads as well. This growing number of vehicles on limited, poor quality roads is a major cause of road injuries. The World Bank estimates the cost of road injuries to be equivalent to 1 to 3 per cent of GNP and that by 2020 road accidents will be the third leading cause of death and disability. The increasing number of vehicles is having little impact on access to schools, health care and employment opportunities of the 80 per cent of Yemen's population who live in some 100 000 small and isolated rural communities as in many cases year round access is by foot.

***...and accidents***

***With decentralization need to know who pays for roads and who should build them***

Important issues for technical assistance in this context, include the following.

- How are road user charges — on fuel and registration channeled to road construction and maintenance?
- In the decentralization of government responsibilities now underway are the relative roles of local administrative units and central units clearly allocated and functional?
- What are the barriers to private investment in road construction and delivery? And what institutional and regulatory arrangements could be established to support such investment?

***Unregulated small vehicle passenger market works well enough***

Public passenger road transport within cities is provided by privately owned minibuses and by private taxis. For smaller vehicles there are few barriers to entry or other regulation and while standards vary, services are accessible and inexpensive. Rural public transport also tend to be provided through cars and bus services and are limited. Buses would offer economies of size over longer runs and security in numbers especially for women. Bus services are provided through the General Land Transport Corporation and by two private firms which have been permitted to

***Bus services regulated and services limited***



operate luxury buses between the main cities. Further reform would involve more competition on the General Land Transport Corporation.

Policy issues which technical assistance could help address include the following.

- Do the apparently high annual license fees for large buses discriminate against more widespread use of buses?
- What are the effects on service supply and reliability of the sale by local governments of licenses for specific routes?
- What are the effects of existing tax and excise on fuel on vehicle choice and use?
- What are the likely impacts of the pending purchase by the General Road Transport Corporation of 185 buses using donor funds, on existing and potential private long distance bus operators?

*Road freight a widely recognised problem mandated price schedule enforced by a cartel...*

*...and check points*

The regulation of the road freight system faces many difficulties which the government is addressing. A system of regulated prices yields high costs and unreliable service for consumers and irregular work and low incomes for truck owners and drivers. The Ministry of Transport prepares a road freight schedule which is enforced by a cartel or drivers' syndicate called the Ferzah. The system to enforce the pricing regime involves check points.

The Government recognizes the weaknesses in the existing system. Legislation was prepared to encourage the development of a competitive road freight transport market in 1999 and involved establishing a General Land Transport Authority. Besides dismantling the road freight schedule system, there would be arrangements for collection of weight/distance tariffs from loaded trucks to fund road maintenance. In 2002, the Prime Minister appointed a committee of Cabinet Ministers to examine the cost-raising effects of the Ferzah's problems. Cabinet decree No. 33 for 2002 calls for the opening of new offices to break the Ferzah monopoly at the request of the Ministry of Transport.

#### *Technical assistance*

The World Bank reviewed road funding in 2000. This review concluded that budgetary processes did not allocate available funds to appropriate projects.

Technical assistance for road transport is significant. In mid 2001 the World Bank provided \$45 million for phase 1 of the Rural Access Program under the Ministry of Public Works and Urban Development. The ten year

program is intended to improve the livelihood and reduce the isolation of Yemen's rural population by developing the rural road network and strengthening local institutions to manage rural access improvements. One of the output indicators is to reduce rural transport costs for passenger and goods by 30 per cent

Technical assistance in this context could include the following areas.

- Examination of the costs of the restrictive agreements on transport which occur in a wide range of ways. For example, restrictions on fleet size hurt the scope for developing logistical movement systems.
- Transport logistical information systems have been developed by UNCTAD drawing on modern developments in information technology. These systems cover and integrate ports, rail roads and water transport systems. This Advance Cargo Information System (ACIS) is a 'tool box' of computer applications designed to produce management information to address cargo and transport equipment issues in all modes and all interfaces.
- Road maintenance funding, including its sourcing and disbursement is a key long-term issue. In 1995, the International Development Agency (IDA) provided a credit of \$37 million to amongst other things, establish a Road Maintenance Fund. This fund has not reached planned levels of activity largely because of funding shortfalls. Though laws have been passed specifying funding from fuel, levies and license fees these measures have not been implemented or funds raised from them caught up in other agencies of government.
- As car ownership increases and people move to the cities pressures on urban transport systems are increasing. Thus there is a need for a study of urban transport systems.

### ***Air transport***

#### ***Single supplier of domestic transport***

The national carrier, Yemenia has an exclusive concession to operate domestic air passenger and cargo services in Yemen until 2004. No other airline is permitted to operate domestically. The Civil Aviation and Meteorological Authority regulates all aspects of air safety and manages Yemen's 14 airports. Yemenia's market share has increased in recent years due to the withdrawal of several foreign airlines from Yemen service.

*Technical assistance***Core issues  
include...**

The core policy issues confronting Yemen's airline industry which could be addressed through appropriate technical assistance include the following.

**...how to organise  
and manage airport  
facilities**

- The ownership, management and regulation of airports and airport facilities are going through considerable change in many countries. Private ownership and investment has come to be a practical option with experience and development of appropriate regulatory arrangements. Exposure to this experience and assessment of its application in the Yemen context would be a good basis for developing Yemen's airports.

**...how to organise  
and regulate  
international and  
domestic airline  
services**

- Yemenia is already 49 per cent owned by Saudi Arabian Airlines. Could private ownership of the Government's share be structured to allow the airline to retain its national carrier status under bilateral airline agreements? What competitive arrangements, including dismantling of barriers to entry, should be established pending further consideration of privatization?

**Sea transport**

Yemen has nine sea ports. The largest is at Aden where there are two large ports. One of these, the Aden Container Terminal is operated by the Port of Singapore Authority (PSA) under a 20 year management contract with Yeminvest, a company owned by the PSA and the Saudi Bin Mahfowz group. Yeminvest was awarded the concession in 1996 to develop the ACT and an industrial estate within the Free Zone at Aden. Ma'alla is the general and bulk cargo port at Aden. It is owned and operated by the Government agency, the Yemen Ports Authority. Hodeidah is the preferred port of entry for most of Yemen's imports. Hodeidah and Aden compete to some extent, directly through port charges, and indirectly through the cost of land. Relative efficiencies of customs and road transport systems also influence importers' choices between the two ports. They also compete by way of quality of performance and shipping companies praise the high standards of performance efficiency achieved by the PSA of the ACT.

**Telecommunications****Telecommunication  
access improving  
expansion programs  
in progress**

Although the level of telephone use relative to the population is still low what has been achieved in the telecommunication sector represents a great leap and substantial efforts. A modern reliable national telecommunications network has been established and operated in all

governorates of the Republic. All governorates, districts, centres, capitals and towns are connected to the network and around 3000 (rural and remote) settlements have access to the network.

The number of installed telephone fixed lines reached 622 210 lines in mid 2002, which represents a telephone penetration of 3.46 per cent of the population. The installed fixed line capacity will be increased to about 1.2 million by mid 2003 (on the basis of ongoing contracted projects).

***Terrain and low GDP are the most pressing elements***

The area of the Republic of Yemen is 460 000 km<sup>2</sup> with a population of around 18.3 million in 2000, spread over 20 governorates in about 70 000 settlements with a population density of around 39.7 people per km<sup>2</sup>. About 25 per cent of the population live in the urban areas and the remaining 75 per cent lives in the rural areas. The Republic of Yemen is divided in five natural regions, mountains, hills, coastal areas, islands and desert. These natural divisions, settlements and population distribution, as well as low GDP are the greatest problems and limitations facing the telecommunication sector in the Republic of Yemen.

***Fixed line domestic telecommunication services - the Public Telecommunication Corporation (PTC)***

***PTC monopoly, a 100 per cent provider of fixed line services***

The Public Telecommunication Corporation is a government corporation, self financed and operates under the public sector rules. PTC is responsible for the operation, maintenance and development of the national telecommunications networks. It has exclusive right to provide fixed domestic telecommunication services.

***Regulation and supervision***

***Regulatory regime***

- The Ministry of Communications is responsible for implementing general policies, strategies and regulations in the telecom sector in Yemen. The Minister of Communications is the Chairman of the PTC Board of Directors. PTC is a self financed corporation and operates in accordance with the public sector rules and regulations.
- The regulatory regime is within the Ministry of Communications and functions through two main general departments:
  - general directory of frequencies regulatory use; and
  - telecommunication regulatory affairs.
- An independent regulatory entity is to be created in the future, within the framework of the restructuring of the Ministry of Communications.

- Fixed telephone line charges are usually approved by the Minister of Communications, sometimes subject to the approval of the Cabinet.

### *Technology*

#### ***PTC modernizing the network***

Using modern technologies, digital switches, digital microwave, optical fiber systems and satellite communications, substantial progress has been made by PTC in modernizing the national telecommunication networks. PTC also established and operates a frame relay high speed data network. Digital rural systems, wireless local loop (WLL) systems, fiber optical access systems and VSAT systems were introduced to upgrade the rural telecommunication networks.

### ***International services - TeleYemen***

#### ***International services virtually a monopoly***

TeleYemen is a joint venture between British Cable and Wireless (51 per cent) and PTC (49 per cent) which was established by a cabinet decree in 1990. The right to provide international call services was granted to TeleYemen on a monopoly basis through until 2003.

### *Tariffs for international services*

#### ***Tariffs for international services are not high by international standards***

To access to TeleYemen international services requires a payment of an equivalent of US\$2.8 upon starting the service plus a monthly bill charge. TeleYemen in general enjoys a good reputation with regard to the limited number of technical errors as well as competitive tariffs.

### ***Mobile telephone services***

#### ***Analogue mobile services***

TeleYemen and PTC established and operate an analogue mobile system in 1992. Both TeleYemen and PTC each shared 50 per cent of the revenue of this analogue mobile system.

#### ***GSM services from the two providers started in February 2001***

In accordance with the policy of the restructuring of the telecommunications sector in Yemen and to encourage the participation of the local and foreign investors in the development process, the Ministry of Communications issued in July 2000, two licenses to the private sector through international tender for two operators (local/foreign investors) 'Sabafon company and Spacotel Yemen company' to establish and operate a GSM network in Yemen on a competitive basis.

Both companies operate under contracts containing equivalent terms and conditions and extend for 15 years and only two GSM operators will

operate in the first four years. Service rollout, coverage and quality during the first four years for each company were set out in the license agreement, as well as the ceiling of the tariffs, based on their offers (tender documents). Both companies installed until July 2002 about 275 BTS stations with a total working lines of 262 527.

*Public telephone service (resellers)*

The Ministry of Communications allows the private sector (individuals or companies) to provide (or resale) the public telephone services by means of:

- public shops; and
- public call boxes using pre paid cards.

These services are open for full competition. Individuals are providing the public telephone services from public shops spread over the country (around 1 600 public shops in operation). ALO company provides public call boxes using prepaid cards.

***Yemen payphone company ALO, a public telephone call boxes provider which entered the market in 2000.***

ALO is a joint venture company owned by local investors (50 per cent) and a Jordan-based company operating jointly with two Greek companies (50 per cent). The ALO company entered Yemen in May 2000 under a contract signed with the PTC. The license issued by the Ministry of Communications to ALO company stipulated that the ALO company shall provide the service on a basis of full competition with other types of public telephone services. ALO has no specific technology of its own since it is in most cases a reseller for telephone services originally provided by the PTC. It operates about 2000 public telephone call boxes available in the capital cities of the country through the use of the prepaid cards system.

***Global mobile personal communications via satellite (GMPCS)***

***GMPCS service***

In July 2001 the Ministry of Communications issued a license to the Althuriya company to provide and market GMPCS services in Yemen on a competitive basis with other possible GMPCS operators.

- The traffic between an Althuriya customer to another Althuriya customer is routed directly via Althuriya network.
- Traffic between an Althuriya customer to another PSTN or international customer is routed via the official international operator, that is TeleYemen.

- Althuriya is a joint venture GMPCS service company (mainly) between a number of telecommunication operators in the Arabian Gulf States, its headquarters in the United Arab Emirates.

### ***Internet service providers***

Internet services were first introduced in Yemen in 1996. The prices charged for internet services were unaffordable for many people. The number of internet customers, reached in March 2002 was 7 878 direct customers. The PTC established an internet network and launched internet services in April 2002. It is the policy of the Ministry of Communications to provide an affordable internet service to meet social and educational objectives.

## **Tourism**

***Tourism earnings increasing in many countries and in Yemen***

Rising incomes, cheap and accessible air travel and increasing interest in other people have helped make tourism one of the leading export sectors in many countries — developing and developed alike. The SFYP identified tourism as a sector with considerable potential for generating incomes and employment throughout Yemen. Such a projection has considerable substance. Yemen has an abundance of unique scenic and historical attractions which make tourism a sector with considerable unrealized potential.

***Despite security concerns***

Despite concerns about personal security following terrorist attacks in 1999, tourism growth has been solid. A downturn in tourism arrivals from Europe from 1999 has been off-set by increased arrivals from Arab countries. The total number of tourist arrivals increased from 61 350 people in 1995 to 72 836 people in 2000 after dipping to 58 370 in 1999.

***But numbers are still small and only 13,000 people work in tourism***

The number of tourist establishments such as hotels, restraints and agencies is increasing steadily and is located in the main cities. About 13 532 people are estimated to work in tourism establishments. About 500 foreign workers have been approved to work in tourist establishments to cover shortages in certain skill areas, to do with language, food preparation and entertainment. Despite some of the obstacles to tourism, investment is proceeding and some 68 projects were registered in 2000.

- Obstacles much the same as other activities...***
- Many of the obstacles confronting development of tourism are similar to obstacles confronting investment in other sectors. They include the following:
- high costs of air transport, both domestically and on international routes;
  - the negative perceptions conveyed by the media about security and kidnappings; and
  - the lack of tourism services particularly in cultural regions located far from main cities.
- ...transport costs...***
- ...security concerns...***
- ...weak services***

The main constraint on investment in tourism outside the main centre lies in the lack of basic services, but investment is also deterred by the following concerns.

- Problems concerning access to land for projects. A field survey by the GIA found that problems with land pose a major obstacle to investors.
- The performance of the bureaucracy.

The Ministry of Tourism has taken a range of measures to dismantle such obstacles and the new investment law also provides some solutions.

### ***Institutional arrangements and technical assistance***

The main agency for tourism in the Ministry for Tourism and Industry associations do not seem to be well developed. Other agencies charged with maintaining the natural heritage include the Environment Protection Authority, the General Organization for the Protection of Cultural Heritage in Yemen and the General Organization for Antiquities. The Ministry is coordinating with related authorities to intensify promotion and erase the bad image created by foreign mass media about Yemen. It has also introduced measures to ensure the safety and well being of tourists and to encourage private sector activities.

The centralization of tourism establishments tends to concentrate the returns to tourism to the main governorates. Sana'a city has about 35 per cent of the hotel establishments, 53 per cent of the tourism agencies and about 23 per cent of restaurants catering to tourists.

Improving tourism in regions will require a range of initiatives. These could include executing a comprehensive survey on tourist regions and locations and producing a tourist map; and providing essential infrastructure services to tourist locations, such as roads, electricity, telecommunications and water.



*Technical assistance*

Some of the policy actions needed to assist tourism include the following:

- preserving the cultural heritage including ancient towns, antiques and traditional customs;
- protection of ancient monuments in their original regions or in suitable places;
- developing tourism in currently neglected regions; and
- development of new orientations such as sea and diving, tourism, mountain and climbing tourism and adventure tourism.

Development of tourism in Yemen will involve expenditures on facilities and infrastructure in selected tourism areas, promotional activities, development of training programs, and undertaking surveys of tourism regions. Much of the funding should come from the private sector, but some activities may be appropriate targets for funding from donors and international organizations. Donors may be able to help with projects targeting restoration and preservation of historical monuments, conduct of archaeological surveys, and support for the development of policies and regulatory regimes to ensure preservation of environmental, cultural and historical amenities. Donor finance may also help with completing the infrastructure of the country that helps in developing tourism, particularly roads, electricity, medical services, water supply — although the targeting of such spending on areas with tourist potential would have to be weighed against other social and developmental priorities.

## **Labor remittances**

*Yemen, a remittance economy as much as an oil economy*

While Yemen is frequently styled as an oil economy, it would be more accurate to call it a remittance economy. Despite significant falls in Yemenis working overseas following the Gulf war, remittances made through the banking system remain at around \$1 billion per year. This estimate is more than the country's oil revenues and it almost certainly understates total remittances by not counting the flows of cash and goods also sent by overseas workers.

### ***Labor migration and remittances***

*Yemeni communities in many countries*

Yemeni emigrants may be classified into two groups. The first group consists of the approximately 5.5 million descendants of early emigrants who settled in South East Asia, particularly Indonesia and Malaysia. The

second group consists of the so called moving emigrants who migrate and return home. Until the early 1950s, the number in this second category of emigrants was comparatively small in the order of 200 000 people and located primarily in Ethiopia, Sudan, USA, Egypt, Great Britain and Somalia.

***Oil boom of 1970s  
saw movement to oil  
producing countries***

With the oil revenue boom in the Gulf states during the 1970s, almost one third of Yemen manpower moved to Saudi Arabia, United Arab Emirates, Kuwait and Qatar. Yemeni emigrants in neighboring African countries, were also attracted by these opportunities.

During the decade of the 1980s the migration to the Gulf states began to slow down for the following main reasons:

- the relative decline in oil revenue which had an adverse effect on investment;
- the first gulf war between Iran and Iraq; and
- the completion of major construction works.

***Gulf war of 1990  
sent 800 000 back***

However, the real setback for Yemeni emigrants happened with the second Gulf war of 1990. This caused the expulsion of more than three quarters of a million Yemeni workers. A large number of them lost their properties and savings.

According to table 7.2, the number of emigrant returning home from the Gulf states totaled 731 800 of which 84 195 were house owners. It will be observed Hodeida was the most affected province.

**7.2 The number of emigrants returned home during and after the gulf war of 1990**

<i>Name of Province</i>	<i>Total number returned</i>	<i>Owners and non-owners of houses</i>		
		Owner	Non-owner	Total
The Capita	56 047	6 388	11 478	17 866
Aden	20 844	5 069	5 960	11 029
Sana'a	19 899	1 918	10 919	12 837
Lahge	7 569	897	4 538	5 435
Taiz	55 100	6 100	31 288	37 388
Abyan	1 005	2 521	5 028	7 549
Hodeida	266 008	27 445	38 481	65 926
Shabwa	58 461	5 874	19 479	30 217
Ibb	49 051	5 874	33 652	39 526

(Continued on next page)

## 7.2 The number of emigrants returned home during and after the gulf war of 1990 (continued)

Name of Province	Total number returned	Owners and non-owners of houses		
		Owners	Non-owners	Total
Hadramout	33 974	3 703	21 472	25 175
Dhamar	14 913	1 428	9 563	10 991
Almahra	5 443	1 630	2 802	4 432
Hajja	63 180	4 203	9 398	16 601
Sada	22 805	2 161	5 432	7 593
Almahweet	13 050	637	9 402	10 039
Albaydha	29 441	1 935	13 491	15 426
Marib	2 816	575	1 082	1 657
Aljawf	3 154	973	901	1 877
<b>Grand total</b>	<b>731 800</b>	<b>84 195</b>	<b>234 369</b>	<b>318 564</b>

Source: MEA 2000

Following the Gulf war of 1990, the United Nations set up a High Commission in Geneva, for the compensation of individuals and organizations affected by the war, from the revenue of Iraq oil export allocated for this purpose.

### Compensation processes established

The United Nations High Commission on compensation distributed application forms and requested the governments concerned to take the necessary steps and forward applications on behalf of their citizens. In the Republic of Yemen it was the responsibility of the Ministry of Emigration Affairs to deal with the compensation issue. The Ministry established processes for doing this including publication of processed applications and payment to approved applicants. Table 7.3 explains the number of applicants by group and the payments approved.

### 7.3 Compensation payments

	The number of applicants		The amounts of payments (US\$)	
	No. submitted	No. approved	Amount requested	Amount approved
A	12,247	12,200	57,000,000	56,797,000
B	90	3,333	120,000,000	355,000
C	3,347	3,333	227,000,000	96,110,087
D	414	56*	88,000,000	6,784,434
E	8	**	NA	
Total	16,106	15,642	512,000,000	160,046,521

\* the rest still under consideration

\*\* all still under consideration

Source: Mission estimates

According to the above figures 15 642 applicants were approved out of 16 106 applications. The amount of compensation paid up until now is US\$160 046 521. The Ministry of Emigration continues to follow up the High Commission on the compensation issue.

### ***The cabinet decrees in favor of emigrants***

Following the results and recommendations of the first Yemeni emigrants conference held in Sana'a in May 1997, and attended by about 200 participants representing Yemeni communities throughout the world. And in recognition of the Yemeni emigrants positive roles in Yemen's economic and social development, the cabinet has issued various orders and decrees regarding facilities and services for emigrants (see table 7.4).

#### **7.4 Legislation for emigrants**

<b>Decree number</b>	<b>Date</b>	<b>Purpose</b>
22	1999	For encouraging and reactivating Yemeni emigrants investment inside the home land.
23	1999	For reconsidering the passport fees, of Yemeni emigrants and their families.
37	1999	For the preparation of law on emigrants care taking.
62	1999	For encouraging emigrants investment in housing.
63	1999	For encouraging employment of local Yemenis in Yemen embassies and diplomatic missions abroad.
95	1999	For amending and reducing passports fees of Yemeni abroad.
136	1999	Regarding the results and recommendations of Yemenis emigrants. First conference.
139	1999	For the support and care taking of Yemeni emigrants.
140	1999	For encouraging emigrants investment in shares of the privatizing banks.
141	1999	For Yemeni emigrants social security.

Source: Ministry of Emigrants Affairs 2000

### ***Population and labor force growth***

***Population is growing at 3.5 per cent per annum***

Population growth is estimated to be 3.5 per cent per annum. In 2001, some 7.8 million people (or just over 50 per cent of the population) were of working age (15–64 years old). CSO projections suggest that by 2016 some 16.5 million people will be of working age. These projections underscore the imperative to remove policy and structural impediments to employment generation in the domestic economy.

## ***Policy implications***

***Migration and remittances shaped as much by domestic policies as by conditions in other countries***

While conditions of labor demand in neighboring countries play an important role in shaping labor movements, domestic policies also matter. An important reason why so many Yemeni people seek opportunities outside their country is the limited opportunities for them to work at home. These limited opportunities reflect the unattractiveness of the investment environment. Thus policies focussed on promoting worker migration and providing specialized incentives for remittances are a small part of the story which is much more about the broader factors that limit labor demand, skill acquisition and productivity growth inside Yemen.

***Therefore need to work on policies at home and not just conditions for remittances***

Actions on the regulatory environment for investment are important to ensure the most productive use of remittances. Liberalization of the foreign exchange market has improved incentives for migrants to remit transfers through the banking system. With respect to policies towards labor remittances in particular the challenge is to remove impediments to movements of people and remittances. The recent decision to allow the private sector to participate in labor recruitment is a positive step in this regard.

## **Agriculture**

***Agriculture produces 14 per cent of GDP and supports 75 per cent of the population***

About half of Yemen's population is employed in agriculture and nearly three quarters depend on agriculture for their livelihood. Agriculture produces about 14 per cent of GDP without counting in the value of qat production. Yemen is divided into four main agro-ecological zones, the highlands, the tihama or coastal plains, the eastern plateaus and the deserts region. Climate is predominantly semi arid. Rainfall is generally low and erratic and the climate varies from humid subtropical in the coastal plain to cool in the highlands. Water is a limiting resource. There are 604 000 ha of irrigated land most of which is irrigated by tube-wells and the rest by traditional management systems using low terraced banks to distribute water down through valleys. Millet, sorghum cowpeas, wheat, barley and fruits are grown on the rain-fed lowlands and high rainfall highlands. Sorghum, cotton, tobacco, millet, coffee and qat are grown on well irrigated areas in the lowlands and intermediate plains. And sorghum cotton millet and cowpeas are grown under traditional spate irrigation on the intermediate plains. Food security has been a major concern for policy makers. Important policy issues which the government is currently addressing include improving agricultural marketing arrangements and developing non-food but high value crops such as cotton.

Agricultural exports are modest with less than 2 per cent of output exported. Coffee represents about 50 per cent of agricultural exports followed by fruits (24 per cent) and vegetables (14 per cent). Since unification agricultural output has increased in volume terms by 30 per cent; faster than population and the economy as a whole. Value of production has increased by 20 per cent. Agricultural growth quality is good when measured by its impact on equity (World Bank, 2002).

*Therefore much of the diagnostic study impacts on agriculture...*

Because so many Yemeni people are involved in agriculture many of the issues covered in other parts of this diagnostic study impact on the sector.

*...poverty analysis ...transport...*

- The poverty analysis in chapter 5 of policy changes affecting diesel and water, export controls is necessarily agricultural oriented.
- The transport sector analysis canvases the significance of rural roads and transport policy in providing access to employment, education, health and markets for isolated rural communities.
- The remittances sector study traces the traditional role of remittances in shielding many rural families from poverty.

*...remittances*

*Special issues relate to water, qat and women*

However, there are several other issues quite special to Yemen and not yet covered in this diagnostic study which are of vital importance to agricultural production and marketing and therefore to the welfare of some 15 million Yemeni people. These issues include the unsustainable use of water aquifers, the significant role of women in agricultural production and the rapid growth of qat in production and consumption.

### ***Water use and management***

*Rainwater systems which were sustainable for many centuries are falling into disuse.*

Water is at the core of Yemen's agricultural performance. Traditional agricultural systems that operated on a sustainable basis for many hundreds of years are now under threat from several sources. First, community resources in terms of both human capital and cooperative relationships as well as investment necessary to support traditional spate irrigation appear to be functioning less effectively. Second, powerful diesel pumps, subsidized fuel, rapid population growth and the lack of ground water management and pricing systems for this common property resource are placing unsustainable pressures on it. The impending exhaustion of aquifers is not just an agricultural problem, as the capital city, Sana'a, faces the distinct possibility of running out of water within the next decade.

*Ground water under threat*

*Trade policies have encouraged excess water use*

Trade policies are part of this story. Barriers to the import of fruit and vegetables in peak season encourage use of water for domestic production of these products. Traditional spate terrace systems of water harvesting

have been set back by policies of importing and selling grain at domestic prices. There are concerns that the export of labor from rural areas is regarded in some has led to a loss of skilled labor resources and consequent failure of traditional irrigation systems but the relationship is complex. Remittances are also a source of capital and investment in agriculture and like any other investment is influenced by such things as security of land value.

**Problems  
recognised and  
solutions starting to  
emerge**

As the intensity of the problem has intensified some solutions are emerging. Subsidies are being reduced, markets for water are emerging and local user groups with a direct interest in sustainable management are being formed. However, markets do not provide incentives for efficient management of the common property resource and to be effective local user groups need to be armed with means of establishing and enforcing title over the resource.

***Qat - a major item in production and consumption***

**Government  
formulating a policy  
on qat**

If diminishing water supply is a special feature of Yemen the production and consumption of qat is another. Qat is a leaf with mild amphetamine properties which many Yemeni people chew as a form of social engagement and relaxation. The rapid increases in its consumption and production in the last 20 or so years have made qat a controversial issue. The Government tackled this issue in a large conference in 2002 entitled *Towards the formulation of a comprehensive qat policy* (MPD, MAI, 2002).

That the Government identified a need to come up with such a policy reflects several considerations. First, with a conservative estimate of the value of production of \$636 million qat contributed about 44 per cent of the total value of agricultural production (World Bank, 2002). Agriculture with qat included is second only to oil in the value of output and about 7.5 per cent of the country's GDP on average during the period 1990–2000. Second, qat production employed almost 25 per cent of the total number of employed persons in agriculture in 1999. Third, high profits realized by qat producers enabled them to save and invest in other agricultural production activities besides qat, and create job opportunities.

**Qat is using  
underground water  
and might be  
supplanting other  
crops**

On the other hand the conference also raised and addressed several concerns with regard to both production and consumption. On the production side water use is one concern. According to the report on the March 2002 Conference:

'The unprecedented expansion in qat area and production was mainly the result of the unorganized and haphazardly executed digging of wells which

contributed significantly to the depletion of groundwater resources in many areas of Yemen especially Sana'a' (MPD MAI, 2002).

A second source of concern identified is the supplanting of qat for traditional export crops, coffee, fruits and vegetables.

On the question of water consumption the issue seems to be more about water management than qat as the same problem would apply and need to be addressed with the emergence of any profitable crop. Whether qat is replacing or enhancing the production of exportable crops is not clear. While qat production is expanding rapidly some of the savings from qat revenues are apparently being invested in other forms of production. Moreover, even if qat were to be supplanting exportable crops, this would not necessarily be a problem as it would indicate that at existing prices Yemeni people valued qat over other products including some importable products.

***Qat good for rural incomes but is a strain on urban household budgets***

On the demand side the proceedings paper identified three core issues. One concern the large amounts of disposable income spent on qat and the adverse implications for savings. A second concern involves the large amounts of work time lost in qat sessions. The third effect related to negative effects on health. Finally, the workshop report confronted two dilemmas for policy markets. On the one hand expanding production of qat has been an important aspect of rural growth and accordingly has contributed effectively to reductions in poverty of rural people. But at the same time expenditures on qat by urban people has reduced their capacity to purchase food.

#### *Implied technical assistance*

the most significant activities emerging from the workshop where technical assistance might be relevant include:

- formulating an information program on the health and nutritional effect of qat;
- reviewing policies with respect to subsidies on fertilisers and fuel; and
- formulating water rights markets.



## ***The role of women in agriculture***

### ***Role of women in agriculture tends to be underestimated because it is not in formal economy***

Of the females that are economically active in both urban and rural areas, 87 per cent are involved in agriculture and livestock compared with 44 per cent for the male economically active population. It is estimated that women are responsible for 70 to 75 per cent of all agricultural activities (MAI, 1999). The significance of the economic role of female farmers is usually underestimated since they are often outside the formal cash economy and the marketing sector. Accordingly their areas of responsibilities seldom come into consideration in research and extension activities.

For many years rural development projects in Yemen have included a rural women's development component. In 1986 the Ministry of Agriculture and Irrigation (MAI) established a unit responsible for activities involving the health, literary and education of women — the Rural Women's Development Directorate (RWDD) which was upgraded in 1999 to a General Directorate (RWDGD).

A report prepared by the Directorate in 1999 with the support of the Royal Netherlands Embassy makes the following propositions about the role of women in agriculture.

- Yemeni rural women play an essential role in food production and livestock raising but their efforts are hampered by socioeconomic, legal and cultural constraints.
- The report on the March 1997 workshop at the University of Aden *The Aden Agenda* failed to address the urgent and concrete needs of female farmers.
- The formulation of a gender policy for the success of the National Agricultural Policy Strategy is clearly supported by the Republic of Yemen's declaration and commitment to promote equality between men and women through mainstreaming the latter in the development process as equal partners.

### ***Women look after livestock, extension looks after irrigation crops, which men look after***

Male farmers tend to be responsible for the production of marketable crops on irrigated land while rural women have almost sole responsibility for maintaining livestock. But most extension services focus on irrigated cash crops. Female farmers have very limited access to veterinary services, especially as female veterinarians are very rare (in 1998 there were three female and 223 male veterinarians). Female farmers have primary responsibility in the post-harvest phase for storing and preserving, other activities in this phase — marketing, distribution and transportation — are the responsibilities of men. Post harvest losses in Yemen are substantial

and there is likely to be a big pay-off from upgrading the skills of both women and men (MAI, 1999).

Rural women have little control over the means of production and resources — land, water, draft animals, agricultural credit and capital and no control over marketing activities. According to the Rural Women's Development General Directorate (RWDGD) despite the phenomena of male migration in most rural areas even when women become heads of households, male family members still control much decision making.

### ***Institutional arrangements and technical assistance implications***

#### *Institutional arrangements*

MAI adopted an official gender policy on agriculture and food security and consequently upgraded 8 rural women's development units based in agricultural offices throughout the country. At the present time MAI is preparing for the upgrading of all such units. The issue of whether responsibility should be shared among other ministries is being addressed. The Ministry of Fishweath with the support of the FAO has a project on enhancing the role of coastal women in development. At the private sector level the Farmers Cooperative Union has a special women's affairs division.

The MAI with the support of the Royal Netherlands Embassy and technical assistance of the Royal Tropical Institute has a comprehensive program for gender mainstreaming within the Ministry and throughout the agricultural sector. To ensure that the strategic and practical needs of rural women are addressed, the RWDGD is monitoring the implementation of the official MAI gender policy in the agricultural sector and providing a capacity building program to do so.

#### *Technical assistance*

The following areas of technical assistance are implied by this diagnosis.

- To redress the imbalances of information about the relative roles of males and females a database could be created to provide a context to the level of female farmers.
- Consideration could be given to shifting the balance of research and extension towards rain fed agriculture including:
  - seeds and fertilisers;
  - harvesting and post harvesting techniques; and
  - rain water irrigation systems.

- To enhance the capability of internal and external circulation of agricultural products, technical assistance could be directed for:
  - marketing and distribution arrangements for major products;
  - marketing and distribution arrangements for main imports — seeds, fertilizer and chemicals;
  - market information networks both internal and external;
  - development of advice and guidance from production up to marketing in order to reduce post harvest losses; and
  - enhancement of capacity in the sphere of agricultural exporting policies to correspond with the requirements of the changing world.

## Manufacturing

### *Yemen manufacturing a product of past and present policies and the physical environment*

The structure of manufacturing in Yemen needs to be understood in the context of both past and current policies. Past policies of state ownership and high protection have left a heritage of high costs and limited competitiveness. Contemporary policies of low protection, insecure property rights and oppressive regulation have yielded a manufacturing sector which is small, comprises mainly very small firms with a handful of large firms and with a tiny export focus. A poorly functioning financial sector means that most firms, small and large, tend to be family owned and operated. A sparsely populated country with poor roads has not facilitated development around the domestic market. Porous borders mean that local manufacturers face competition from informally imported goods not subject to import duties or other taxes.

### *Manufacturing in Yemen features:*

The essential characteristics of Yemen manufacturing firms are documented in the World Bank study *Economic Growth: sources, constraints and potentials* (World Bank 2002). According to this study the main characteristics are:

- Small firms,*
  - small size of enterprises;
- Concentrated firms,*
  - high degree of industrial and geographical concentration;
- Owned by families,*
  - family and private ownership
- With low value adding*
  - a low ratio of value added to inputs and self financing of investment and activities.

**Efficient financial sector good for manufacturing and all other sectors. Most manufacturing is in food processing**

These observations point to the importance of developing an efficient finance and banking sector. However, this would not simply be for the development of manufacturing but rather to bring about the efficient allocation of resources in all sectors across the economy.

The total number of establishments has been between 33 000 and 34 000 for the past 7 years. Of these 1 per cent were large establishments (of more than 10 workers), 4 per cent were medium scale (4–9 workers), and the rest, around 95 per cent were small scale (less than 4 workers). Most establishments (over half) are involved in food processing. Other products include textiles and clothing, woodwork and furniture, non metallic construction manufacturing and metal products (World Bank 2002).

**About 100,000 people employed**

Approximately 100 000 people are employed in manufacturing, mainly in food processing. Large establishments employ 36 per cent of these people, medium size establishments employ 7 per cent and small establishments employ 57 per cent.

According to the PRSP the industrial sector will be major source of economic growth over the forthcoming years whereby it is expected that manufacturing will grow by an average of 6.2 per cent over the period 2003–05 (PRSP 2002). The PRSP proposes policies covering:

- expansion of training programs;
- removal of regulatory constraints;
- provision of infrastructure;
- support for food manufacturing and garments and textiles to enter foreign markets; and
- attention to specification and quality standards.

**Technical assistance to develop standards to meet markets is a good idea**

A study by UNIDO and funded by the UNDP, explores ways in which technical assistance could be used to help Yemeni products comply with standards and technical regulations of client countries. Compliance is one thing, just as important is credibility and acceptance of compliance by foreign markets (UNIDO 2002). The ensuring program focuses on two key food processing sectors, fish and honey. There are five main objectives;

- development of productive capacities;
- enhancement of the capacity to meet market requirements;
- upgrading of conforming capabilities;
- strengthening of export promotion activities;
- enhancement of negotiation capacity (UNIDO 2002)

<i>For fish,</i>	In the fish sector activities include reducing post harvest losses, improving on-board handling and handling at landing sites, enabling fish processing, establishment to conform with international good practice, and strengthening of laboratory capacity to conform with international requirements.
<i>honey, and</i>	In the case of honey, activities include strengthening producer associations, dissemination of good production processes, support for the establishment of brands and upgrading of relevant laboratory services.
<i>tobacco</i>	<p>A recent World Bank study comments on the major constraints affecting tobacco manufacturing. These include:</p> <ul style="list-style-type: none"> <li>▪ high reliance on imported raw materials largely because local raw materials are not of good and reliable quality for cigarette manufacturing;</li> <li>▪ bureaucratic interactions between the public and private sector are major obstacles confronting tobacco manufacturing along with other manufacturing and indeed other economic activity.</li> </ul>
<i>Fair point that manufacturers are not protected and face oppressive regulation and taxes</i>	<p>Tobacco manufacturers along with most other manufacturers in Yemen consider that they are unfairly afflicted by smuggling activities. They argue that while the government has removed all bans on imports it has not:</p> <ul style="list-style-type: none"> <li>▪ removed all the bureaucratic obstacles facing manufactures;</li> <li>▪ reduced taxes on imported raw materials;</li> <li>▪ curbed smuggling and dumping and enforced existing laws;</li> <li>▪ constructed industrial zones with reliable infrastructure;</li> <li>▪ reduced tariffs on inputs;</li> <li>▪ put local production and imported goods on an equal basis with respect to sales taxes.</li> </ul> <p>There is much to be said for these arguments. They apply with special force to those firms large enough to be counted in the formal sector and therefore required to pay taxes but to receive poor value for money for those taxes by way of government services and infrastructure.</p>
<i>Manufacturing problems are everybody's problems</i>	Some people have argued that manufacturing should be promoted by way of getting the 'lions share' of Government support. Yet real as the obstacles to the manufacturing sector are, there are similar to the barriers prevailing in all other sectors.

Promoting manufacturing on the grounds that that is where the employment would be created would raise some problem. One is the lesson is that it is only industries which can compete without government assistance or protection that will provide large numbers of decent jobs. Another problem is that the main ways of promoting any particular sector involve government ownership, protection or subsidies. The lessons from around the world including Yemen is that governments are not well suited to running government enterprises. And protection means taxes, taxes on consumers, taxes on exporters and taxes on other manufacturers. And finally subsidies also means taxes on taxpayers or the diversion of funds from other uses. Thus the issue is how to dismantle these obstacles to investment which affect manufacturers and just about everybody else in Yemen.

# A

## *Decree establishing IF Steering Committee*

From: Zaid Sultan

To: Sandy Cuthbertson, team leader

Dear Sir

This is translation of the Minister of Trade and Industry's decree on the Steering Committee of the Integrated Framework for Technical Assistance for the LDC's.

The Minister of Trade and Industry has decreed that:

- with reference to the Constitution of the Republic of Yemen and the presidential decree no. 72 for 1998 on the formation of the cabinet and naming its members;
- the Prime Minister's decree no. 11 for 2001 on amending the Prime Minister's decree no. 239 for 1998 on the formation of the NCPN-WTO and identifying its tasks;
- the Prime Minister's decree no. 83 for 2000 on the formation of the negotiation team for the accession to the WTO;
- the proposal of the adviser to the Minister of Trade and Industry head of the WTO Liaison and Coordination Unit.

The Minister has decreed that:

Article I: The NCPN-WTO with the WTO is a Steering Committee for the IF of the Republic of Yemen.

Article II: The NCPN-WTO shall hold its meetings on the schedules outlined thereafter to discuss reports presented by the international and local experts on the diagnostic studies for integrating trade (reviewing the integration and competitiveness of the trade sectors in light of the development and poverty reduction plans and strategies). It shall also

supervise the accession process related to the implementation of the program.

Article III: The NCPN-WTO shall operate as a Steering Committee until the completion of the IF work.

Article IV: Mr Mohammed Abdulaziz is to be the reporter of the Steering Committee and the liaison officer with the IF international and local experts entrusted with carrying out the integration and competitiveness studies.

*Issued by the Minister of Trade and Industry, Chairman of the NCPN-WTO, Abdularahman Mohammed Ali Othman, 25 May, 2002.*



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