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Please note: this issue was prepared before the tragic incidents in the US.

Yemen Economic Update

The Yemen Economic Update is a quarterly report that consists of four sections. The first section highlights key political, major economic and policy developments. The second section provides “flash indicators” for key economic variables that are available on a monthly or quarterly basis by the Government of Yemen. The third section uses different data sources to compare one aspect of Yemen to other countries in the MENA region and countries with similar GDP per capita and population. The final section summarizes new legislation, publications, data, conferences, and donor activities. Occasionally, special topics will be featured in the Update.

Political and Economic Developments

Recent Political Developments

President Saleh returned from Germany on July 28th after spending two weeks for medical checkup and rest. He is 59 years old and appears in good health. He has been quiet active since his return, issued several important republican decrees and paid field visits to some local districts.

Since the formation of the new cabinet in April 2001, political parties, civil society and the media debated numerous issues in the government’s political and economic reform agenda. The current political debate focuses on the proposed amendments to the Elections Law, the abolishment of religious institutes, and the major reshuffle of the government’s senior officials. The economic discussions hinge on the reduction of the diesel subsidy and the increase in the tariffs of public utilities (electricity, water, telephones) and airfares. The decentralization process and judicial reforms have also received the attention of the media.

In a recent interview with the Qatar-based Aljazerah TV, President Saleh stated that the amendments to the Elections Law will soon be presented and approved by the Parliament. The proposed amendments to the law grant the President more authority, in particular, in appointing and dismissing the seven members of Supreme Election Committee (SEC). Such power was assigned before to the Parliament. Under the new proposals, the President will nominate 15 persons from which the Parliament will select seven for the membership of the SEC and then the President again would endorse them by a presidential decree.

The SEC is an autonomous body to organize and monitor elections in Yemen. It was formed in 1993 with 7 members from the main political parties. The constitutional amendments, adopted this year, extended the term of SEC members to 6 years and emphasized the politically independence of its members.

All political parties voiced their opposition to the proposed amendments. However, with the President instructions, the government initiated wide dialogue and negotiations with political parties and NGOs on the government proposals. The dialogue was frozen for about one month when political parties protested the diesel price hike last July. Negotiations resumed again in early September.

Political tension between the ruling GPC and the Islah party has cooled down after it was heighten over the last four-months when the government annexed the “religious institutes” to the Ministry of Education. It was reported recently that a committee was formed to regenerate the institutes on the basis of Alazher schools in Egypt rather than to abolish them. The government also recently released some of the properties of the Socialist Party which were confiscated in 1994.

President Saleh made a number of appointments to senior government officials in both the executive and judicial branches of government. Observers believe that these technocratic appointments are likely to improve public sector services and management.

For more information about items in this Update contact Mohammed Al-Sabbry (malsabbry@worldbank.org), World Bank Office, Sana’a.
Economic Policy

The cabinet quietly passed a decree on July 26th increasing the prices of diesel and public utilities. The diesel price was raised by 70% (from YR 10 to YR 17 per liter). According to the Ministry of Finance, the new price is still 44% of the international diesel price estimated at about YR 38.7 per liter. The tariffs of electricity, water and telephone were increased by 30% effective from 4th August. Furthermore, the international airfares were increased by 15% and domestic fares by 5%. The decisions were well-timed amidst the rainy season and school holidays to reduce opposition and the possibility of riots. A similar move in 1998 resulted in violent riots all over the country. To weaken opposition to price hikes the government also approved a salary increase of 15% for civil servants and 25% for the armed forces. The public was prepared also for the move for about a year and the Government emphasized heavily in the media the negative environmental impact of low diesel prices (depletion of groundwater and pollution) and increased incidences of smuggling diesel abroad.

On July 24th, the cabinet approved the Second Five Year Plan for the economic and social development for the period 2001 - 2005. The draft was referred to the Parliament and Shoura councils for approval which is expected in late September. The main objectives of the plan are to: (1) alleviate poverty; (2) raise income and living standards as well as the capabilities and skills of the Yemeni people; (3) provide more opportunities for investment and extend partnership with the private sectors; (4) improve the national possibilities in the field of technology and science; and (5) preserve the environment for sustainable development. The plan reviews trends in economic and social development and identifies the current economic challenges, sectoral and local development programs, highlights poverty determinates and magnitude, and the role of the private sectors in achieving comprehensive development.

Major decisions taken by the Cabinet included: (1) instruction to the Ministry of Justice to prepare a detailed plan for the reform of the judicial system and the commercial legal system in particular; (2) instruction to ministries to hand over all the documents pertaining to the developmental projects being implemented centrally, and new projects for 2001, to governorates; (3) transfers of fees collected centrally to the local councils; (4) the arrest of violators to the supply laws who monopolize essential materials for consumption; (5) approval of a plan to develop cotton cultivation during 2002 to 2012; (6) activating the local authority system for the local development of projects that now implemented by the governorates.

Economic Developments:

GDP growth this year is expected to be relatively high (4.1%-4.6%) because of high oil prices and the good rainy season; inflation remained stable at 7% during the first half of 2001; the current account is expected to record a surplus; fiscal surplus is expected in 2001 and performance in the first half of 2001 has been good; interest rates and the exchange rate remained stable; foreign reserves reached US$ 3.2 billion by June 2001 covering more than one year of imports; external debt continued to decline US$ 4.8 billion by March 2001 and domestic debt is also declining (see page 3 for details).

Public Sector

During the inauguration of the training program for local authorities in mid-June, the Prime Minister stated that out of 332 districts, only 90 are qualified to carry out the administrative, financial and decentralization responsibilities and that 70% of them do not have the ability to execute the new system. Consequently, the government cannot execute the local authority system without radical changes. He stated that the law has already been misinterpreted and certain authorities tried to relocate district managers and replace them with relatives.

Judicial Reform and Corruption: In a meeting chaired by President Saleh, the supreme Judicial council (SJC) dismissed 20 judges and prosecutors charged with corruption, referred 108 others to retirement, and recommended the appointment of 500 fresh graduates from Sharia and Law faculties (with a very good grade) in the judicial system. The SJC recommended that dishonest judges and weak performers to be referred to the Accountability Council. The move is part of the current judicial reforms to boost confidence in the system and to attract more domestic and foreign investments in Yemen.

Corruption issues resurfaced in the media and a number of government officials voiced their concerns about the spread of the phenomenon. The Prime Minister stated that his government has failed in defeating smuggling and has not been able to arrest those people behind it, especially those involved in the smuggling of diesel.

Other economic developments:

(1) investment projects licensed by the Free Zone Authority reached 490 (US$ 419 million by June 2001); (2) Yemen’s electricity shortage is now 20% and is projected to reach 50% in 2005; an emergency power of 50 megawatt is expected to be completed in 18 months and another agreement to generate additional 180 megawatt was reached; (3) Yemen offered concessions in 39 onshore and offshore oil blocks (Yemen is divided into 69 blocks). Currently, there are six producing blocks and exploration takes place in 24 blocks. Total oil production is expected to increase from 460,000 b/d to 470,000 b/d by end of 2001; (4) expansion of telephone lines is making good progress and 22,500 new telephone lines were installed in Sana’a; (5) Saudi Arabia will embark on a major international expressway project linking Saudi with Jordan and Yemen; (6) production of Aden mills, owned by Hayel Saeed Group, reached 1,500 tons of wheat daily and would rise it to 2,250 tons. The group is considering new investments in garment and cement industries; and (7) important discoveries of gold (32 million tons) zinc, lead, silver (6.7 million tons) nickel, and cobalt (5.6 million tons) were made.
Flash Indicators

(i) GDP:
This issue of the Update reviews developments in agricultural production in Yemen in the 1990s. As can be seen from the Table below, the share of agriculture valued-added in total GDP declined from 24% in 1990 to 15% in 2000. The agricultural sector grew at an annual average of 5% during the decade. From 1996-2000, however, growth accelerated to 7%. Most of agricultural value-added comes from plant and Qat (stimulant leaf classified as non-cash crop) production. Of the total cultivable area in 2000 (17 million hectares), only 69% was cultivated; with cereals occupying 54% of the cultivated area, followed by cash crops (18%) and vegetables and fruits (14%). Qat occupied more than 50% of cash crop area and 9% of the total cultivated area. Livestock constituted the third most important agricultural activity, with an average annual share of 15% of agriculture value-added and 4% average annual growth rate. The main livestock are sheep, goats, cows and camels. The animal production consists of red and white meat, milk, skins, eggs, wool, and honey.

| Plants         | 49    | 46    | 49    | 47    | 41    | 43    | 43    | 42    | 46    | 49    | 51    | 6 9 7        |
| Livestock      | 12    | 11    | 13    | 13    | 18    | 19    | 18    | 19    | 16    | 14    | 12    | 1 3 4        |
| Fish           | 3     | 4     | 4     | 8     | 9     | 9     | 10    | 9     | 8     | 7     | 7     | 2 6 7        |
| Services       | 1     | 1     | 1     | 1     | 1     | 1     | 1     | 2     | 2     | 2     | 2     | 15 13 13     |
| Qat*           | 35    | 38    | 32    | 34    | 31    | 28    | 29    | 28    | 27    | 27    | 27    | 3 3 2        |
| Agriculture (% of GDP) | 24 21 13 21 23 19 16 16 19 16 15 | 3 3 2 |


(ii) Inflation:
The new CPI (see Yemen Update No. 5) shows monthly inflation rates ranging between 7% and 8% in the first half of 2001 (year-on-year). The share of food and Qat in the commodity basket is 59% in the new CPI. Despite increases in food prices in the first half of 2001, monthly inflation rates stabilized mainly due to declines in prices of Qat since December 2000 due to the good rainfalls. To curb inflationary pressures that may occur as a result of increases in money supply, the CBY introduced a new instrument (Certificates of Deposits -CDs) to absorb excess liquidity in the market. So far, CDs issued reached YR 18.6 billion and are expected to reach YR 40 billion by the end of the current fiscal year.

(iii) Government Finance:
Fiscal data in the first half of 2001 indicate a significant increase in actual revenues over what was planned in the 2001 budget. Actual revenues were 28% higher than the planned budget (compared with a 45% increase in the first half of 2000). Revenue increase this year was mainly due to increase in oil and income tax revenues (29% and 48% over planned budget, respectively). The increase in tax revenue collection could be attributed in part to the improvements in tax administration. During the same period, the total actual expenditure has experienced a 7% reduction below the planned budget. The reductions may reflect the government’s habit of not spending in the first half of the year and accelerating expenditures in the second half of the year.
(iv) External Sector (food exports and imports):

During the 1960s, Yemen was almost self-sufficient in food production. Agriculture was then the main economic activity and total population was a third of today’s total. The food self-sufficiency ratio in 1975 was 80% and deteriorated to 56% in 1990. The value of food imports increased from YR 7 Billion in 1990 to YR 110 billion in 2000 and constituted on average of 30% of total imports. In 2000, food imports consisted mainly of cereals (45%), dairy and meat products (22%), sugar (16%), and fruit and vegetables (8%). Cereal and legumes imports increased from 297,287 metric tons in 1990, to 651,681 metric tons in 2000 (120% increase during the period). On the other hand, the value of food exports decreased from 5% to 2% of total exports; while food exports represented 53% of non-oil exports in 2000. Food exports are mainly fish and its products (32%), vegetables and fruits (18%), and coffee (23%). These items represented 73% of all food exports, but only 8% of food imports.

YEMEN’S FOOD EXPORTS AND IMPORTS, 2000

<table>
<thead>
<tr>
<th>Percentage of Total Food Imports</th>
<th>Percentage of Total Food Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meat and meat products</td>
<td>9</td>
</tr>
<tr>
<td>Dairy products</td>
<td>13</td>
</tr>
<tr>
<td>Cereals and its products</td>
<td>45</td>
</tr>
<tr>
<td>Vegetables and fruit</td>
<td>8</td>
</tr>
<tr>
<td>Sugar and its products</td>
<td>16</td>
</tr>
<tr>
<td>Others</td>
<td>10</td>
</tr>
</tbody>
</table>

Source: CSO.

(v) Monetary Aggregates:

Broad money grew by 21% over the last twelve months (June 2000 - June 2001). It grew rapidly in the second half of 2000 before it started declining from 25% in December 2000 to 21% in June 2001 mainly as a result of the measures taken by the CBY when it extended part of its foreign assets to local market for feeding it with foreign currencies. It supplied the local market with $313 million over the first half of 2001 compared with only $86.7 million in first half of 2000. In general, the composition of money supply has changed during the same period. In June 2000, narrow money constituted 52% of the broad money supply, quasi money was 48%, and foreign currency deposits 30%. By June 2001, these ratios changed to 48%, 52%, and 34%, respectively, reflecting a small shift in holdings of currency outside the banking system in 2000 to foreign currency deposits in 2001.
(vi) Interest Rates:
Overall, interest rates remain stable with little change over the last twelve months. Interest rates on saving deposits are determined by the CBY rather than by the market and have remained fixed at 13% since July of 2000. Given that inflation is under control and slowly declining, the CBY is not under pressure to raise interest rates and is expected to reduce them this year. The gap between high and low interest rates on commercial loans remains 5% points since last October. The yield on three-month T-bills declined slightly to 13.36% in June down from 13.45% in April. The rediscount rate decreased to 15.39% in June from 15.85% in April.

(vii) Exchange Rate:
Thanks to the windfalls of oil revenues, Yemen enjoyed a surplus in the current account in 2000 and the first half of the current fiscal year. This in turn reflected positively on the stability of the exchange rate. The nominal exchange rate continued its very gradual depreciation against US dollar with the exchange rate moving from a monthly average of 166.87 in April to 168.59 in June. The depreciation is considered modest if compared with the 14% depreciation that occurred between 1998 and 1999.
(viii) Foreign Reserves and Domestic Credit:
Yemen continued to build foreign reserves in 2001. Foreign reserves reached US$ 3.14 billion by the end of June 2001 (13 months of imports). As shown below, while the net foreign assets continued to grow, the total and net domestic credit have declined mainly because of government’s payment of its domestic debt (which declined from YR 168.6 billion in 2000 to YR 102.1 billion by end June 2001). As a result, domestic debt now represented only 7% of GDP compared with 12% in December 2000. Furthermore, the foreign assets of commercial banks have also increased over the last six-month.

Source: CBY.
Qat Consumption in Yemen

1. Introduction

Qat is a stimulant leaf chewed on a daily basis by a large percentage of Yemeni adults, who spend a high percentage of their income on Qat. Chewing Qat not only involves a loss of time and income for the chewers, but is believed to have many negative social and health repercussions. This note draws upon recent data to examine the impact of Qat on household expenditures in Yemen.

Recently, the Qat issue has received extensive coverage in the local media and has been addressed in the Second Five Year Plan. President Saleh has initiated some actions to tackle the Qat problem, by banning chewing in government buildings and during official duties, and urging low-income people not to deprive their families from basic needs. The President has concluded that the Qat problem will not be resolved by a political decision but by creating alternatives for Qat chewers (e.g., recreation areas) and by creating economic alternatives and incentives for farmers not to cultivate Qat. It should be noted that this is not the first time that the government of Yemen has tried to tackle the Qat problem. A former Prime Minister tried to discourage the use and cultivation of Qat in 1972, but his initiative failed.

Qat is an agricultural, social, and economic phenomenon in Yemen, and most Qat chewers are usually willing to forego food in favor of buying Qat [Milich and Al-Sabbry (1995)]. Therefore, this note first presents the expenditure on Qat relative to other food and non-food commodities, in order to give the readers a clear picture of Qat expenditure by Yemeni consumers. Second, it tries to estimate the income elasticity of Qat consumption by ascertaining how Qat chewers change their spending on Qat as their income change.

The hypotheses in this analysis are based on Engel’s and Bennett’s laws, which explain the behavior of households in allocating their budget on food and non-food items. Engel’s law states that the proportion of a family’s budget devoted to food declines as the family’s income increases. Bennett’s law states the “starchy staple ratio” (low calories commodities and mostly grain and root crops) declines as household income increases.

2. Data

This note utilizes the 1998 Household Budget Survey (HBS) to examine how households budget among food and non-food expenditures. The 1998 HBS was conducted on 15,120 households by Yemen’s Central Statistical Office (CSO) to capture the different living standards between urban and rural areas and between higher and lower income households. The Survey results show that total expenditure per family is 30% higher in urban than in rural areas, with a monthly average expenditure per family equal to YR 38,351 (US$ 228) in urban areas and YR 29,380 (US$ 175) in rural areas. Between 1992 and 1998, food expenditure as a share of household expenditure decreased slightly, from 66% to 64%, which confirms that people living standards may have improved. However, the overall standard of living is fairly low, as suggested by the fact that non-food expenditures as a percentage of total of household expenditure is only 36% in 1998.

Food commodities in the 1998 HBS consist of 13 items, including Qat. Non-food expenditures consist of 15 items. For the purpose of this study, Qat has been excluded as a separate expenditure item and both food and non-food items are regrouped into four groups. The food commodities include: (1) cereals and pulses; (2) fruit and vegetables; (3) animal products and oils; and (4) other (coffee, tea, spices, sugar, tobacco, etc.). The non-food commodities include: (1) housing costs and durable goods; (2) clothing and makeup; (3) education and health; and (4) others (transportation, communication, personal services and remittances).

The categories of incomes and expenditures are divided into 15 classes, starting with YR 0-5,000 and ending with more than YR 100,000. Because of the non-availability of income data, and given the strong correlation between the distribution of households by expenditure level and income level (as shown in the following section) this study assumes that the budget shares of food and non-food at a given expenditure level will be similar to that at the corresponding income level. Moreover, Qat expenditures in the HBS are associated and grouped with spending on tobacco. Some studies have estimated that tobacco spending constituted about 24.4% of total spending on Qat and tobacco (see Table 1). Therefore, Qat expenditure was derived as 75.6% of the total expenditure on tobacco and Qat.
TABLE 1: RELATIVE EXPENDITURE ON FOOD, NON-FOOD AND QAT ITEMS
(Household Surveys of 1992 and 1998)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Urban</td>
<td>Rural</td>
</tr>
<tr>
<td>Qat and Tobacco</td>
<td>12.8</td>
<td>11.1</td>
</tr>
<tr>
<td>Other Qat</td>
<td>9.5</td>
<td>7.9</td>
</tr>
<tr>
<td>Food Items</td>
<td>51.0</td>
<td>55.9</td>
</tr>
<tr>
<td>Non-Food Items</td>
<td>36.2</td>
<td>33</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>


3. Yemeni Households’ Monthly Expenditure and Income Levels

The histogram of households at each expenditure and income level is shown in Figure 1 below. The $R^2$ value of 0.79 suggests a close correlation between income and expenditure, so that expenditures can be used as a proxy for incomes. The Figure also shows that half of total population earns less than YR 20,000 a month. This may indicate the inability of some families to meet their basic requirements for food (the survey takes into account the value of own-production in rural areas).

4. Share of Qat Expenditures in Total Household Budget

The household budget share on Qat had been previously estimated at between 10% to 28%. A recent study by Ward and Gatter (2000), using the 1992 HBS, found that Qat spending is about 5-10% of total household expenditure among different income levels.

The data of the 1998 HBS confirms the budgetary allocations on Qat are in similar ranges specified in the previous studies. While on average, 8.6% of household spending is allocated in Yemen for Qat (with slightly higher allocations in urban areas), there are significant differences in the ratio of spending on Qat across different income categories. For the category of YR 0-5,000 of monthly spending, only 2.9% is allocated to Qat. The ratio increases as income increases, peaking at 9.7% of total expenditure for the YR 60,000-70,000 monthly expenditures. The ratio starts to decline for higher spending categories reaching 7.9% for more than YR 100,000 monthly expenditures (Figure 2).

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1 For a review of previous studies and estimates, see Ward and Gatter (2000).
As discussed above, data from the 1998 HBS show that the share of Qat in household expenditures, or as a ratio of food spending, increases as income rises. For the poorest households, expenditures on Qat are less than 5% of total expenditures. Families with lower incomes and expenditures spend proportionately less on Qat than on food and non-food items as well (Figure 3).

Box 1: Engle and Bennet Laws and Yemen’s 1998 HBS
The proportion of households’ budget devoted to different food and non-food commodities varies from one expenditure level to another. According to Engel’s law, the budget share on food spending decreases as income increases (Figure 2 above). Bennet’s law also holds true in Yemen with regard to the pattern of spending on cereals (as a starchy staples food) which decreases from 25% of total spending for the poorest households to less than 10% for households with monthly expenditures of more than YR 100,000.

On the other hand, the share of income spent on non-staple foods (such as milk, meat, livestock, vegetables, and fruit) stay fairly steady as a percentage of income raising some concern about nutritional requirements for poor families. The low-income families spend proportionately more on basic food requirement (e.g., cereal) and non-food (e.g., housing) reaching about 48% of their total expenditure. The expenditure on health and education is low for all categories because the government provided these services. However, as a ratio of total spending, richer households spends more on health and education than poor households. Similarly, spending on other non-food commodities increase steadily as income rises.

5. Income Elasticity for Qat
Using expenditure categories, it is possible to estimate the income elasticity of Qat demand at different income (expenditure) levels. The income elasticity is the percentage change in the consumption of Qat for every percentage change in income (Table 2 shows elasticity for both rural and urban chewers). The average income elasticity of expenditure on Qat in Yemen across income categories is 1.20, 1.31 in urban areas and 1.19 in rural areas (excluding highest and lowest income categories).
It is worth noting that the elasticity tends to decline as income increases. That is to say, Qat consumption among low-income consumers is considerably more responsive to changes in income than among high-income consumers. In fact, there is a sharp drop-off in elasticity for the rich, with Qat consumption for the three richest groups quite inelastic, at around 0.2. On the other hand, Qat expenditures are fairly elastic to income changes for those in low-income and middle income households.

<table>
<thead>
<tr>
<th>HH Mean Income Categories (In YR)</th>
<th>Republic</th>
<th>Urban</th>
<th>Rural</th>
</tr>
</thead>
<tbody>
<tr>
<td>7,500</td>
<td>1.26</td>
<td>5.46</td>
<td>1.25</td>
</tr>
<tr>
<td>12,500</td>
<td>1.98</td>
<td>2.32</td>
<td>2.00</td>
</tr>
<tr>
<td>17,500</td>
<td>1.77</td>
<td>2.25</td>
<td>1.75</td>
</tr>
<tr>
<td>22,500</td>
<td>1.68</td>
<td>1.58</td>
<td>1.73</td>
</tr>
<tr>
<td>27,500</td>
<td>1.15</td>
<td>1.71</td>
<td>1.01</td>
</tr>
<tr>
<td>32,500</td>
<td>1.29</td>
<td>0.90</td>
<td>1.43</td>
</tr>
<tr>
<td>37,500</td>
<td>1.07</td>
<td>1.85</td>
<td>0.82</td>
</tr>
<tr>
<td>45,000</td>
<td>1.56</td>
<td>1.17</td>
<td>1.72</td>
</tr>
<tr>
<td>55,000</td>
<td>1.22</td>
<td>1.39</td>
<td>1.16</td>
</tr>
<tr>
<td>65,000</td>
<td>1.03</td>
<td>1.51</td>
<td>0.82</td>
</tr>
<tr>
<td>75,000</td>
<td>1.18</td>
<td>0.67</td>
<td>1.46</td>
</tr>
<tr>
<td>85,000</td>
<td>0.18</td>
<td>0.14</td>
<td>0.20</td>
</tr>
<tr>
<td>95,000</td>
<td>0.24</td>
<td>0.25</td>
<td>0.22</td>
</tr>
</tbody>
</table>

6. Conclusions

Qat consumption absorbs about 9% of total household spending in Yemen. And if the two household budget surveys for 1992 and 1998 are comparable, it seems that spending on Qat in Yemen is increasing.

Relative spending on Qat is, however, less among poor households than richer households. The ratio of Qat expenditures to food spending is also lower among poorer households.

Qat consumption is quite elastic with respect to income changes. This holds true for all income categories with the exception of the three highest income and expenditures categories of the 1998 HBS. Generally, the elasticity decreases as income increases.

References


Yemen Compares: Economic Freedom and Country Risk

In each issue, this section compares an aspect of Yemen to other countries in the Middle East and North Africa region and countries with comparable levels of population and per capita income. Generally, we do not use World Bank data but rather information from a range of public sources that are widely available (generally through the internet). We recommend that the interested reader go to the source material which is referenced for details on the methodological methods and to assess the robustness of the data. Specific to the indices discussed below, while the World Bank does not necessarily endorse the methodologies, views or findings, they can have important implications in the initial views formed by potential investors and others interested in a particular country. For that reason, it is important for policy makers to pay attention to these published indices and to determine the validity of the comparisons and analysis that is being put forward.

The Heritage Foundation is a conservative policy think-tank which promotes a specific range of policy prescriptions. It recently co-published with the Wall Street Journal the seventh edition of its Index of Economic Freedom, which provides information on 161 countries. Available on-line at http://www.heritage.org/index/2001/, it bills itself as an essential handbook for anyone who invests or does business abroad.

Freedom House is a Washington DC based, non-profit, nonpartisan organization that “works to advance the political and economic freedom around the world.” Since 1972, it has published an Annual Assessment of the State of Freedom, including for 192 countries and territories in 1999-00. This assessment scores both political rights and civil liberties. Details of the methodology and results are available at http://www.freedomhouse.org/ratings/index.htm.

Euromoney, a monthly financial and business magazine focusing on the world’s capital, equity and money markets, conducts a country risk survey for over 180 countries and publishes its results twice a year in its March and September issue. It advertises that its “risk rankings provide an in-depth analysis of investment prospects.” With a two month delay, the surveys are available on-line by going http://www.euromoney.com/index.html and selecting the archived issue (free registration required).

Heritage Foundation Indicators: The Heritage Foundation’s Economic Freedom Indicator is a composite index that ranges from 1 to 5, with 1 being most free and 5 being least free, based on 50 measures of trade policy, foreign investment environment, fiscal burden of government, levels of government intervention, banking and finance, wages and prices, property rights, regulation, and the black market. The specific variables and their ratings, for the period mid-1999 to mid-2000, are explained in detail in the report. Yemen, with a score of 3.85, is judged “mostly unfree”, performing somewhat less well than most of the countries in the region (average 3.30.)

However, when looking at the detailed country reports, it is clear that cross-country ratings need to be complimented by informed country knowledge. Doing so, one can question the validity of scores on some of the underlying indicators. The degree of “economic freedom” in Yemen may be under-rated by this index. For example, the analysis on Yemen cites a high level of trade protection in part based on a U.S Department of Commerce report that “[t]he government prohibits importation of seven items”.

Scores: 1-5, with 1 representing most free and 5 representing least free.
Five of the seven mentioned are “pork and pork products, alcohol, narcotics, weapons and explosives, and rhinoceros horns.” Although Yemen’s rating is rather poor, somewhat inconsistent with [the extensive liberalization of exchange rates, currency, tariff reductions, etc.] witnessed, it is interesting to note that the index does pick up a positive trend over the last three years, with Yemen’s rating steadily improving, moving from 4.10 in 1998 to 3.85 in 2000.

Looking at a set of comparator countries with similar population and per capita income, Yemen’s performance on this indicator is still less than impressive, poorer than nearly all the comparators, and below the group average of 3.38. While one could spend time arguing about the veracity of this indicator, it would perhaps be better to spend these energies looking at how best to alleviate remaining constraints to private sector activity in Yemen.

**Freedom House Indicators:** The Freedom House indicators are less directly related to economic policies. Indicators, ranging from 1 to 7, are developed for political rights and civil liberties based on over 20 variables, with 1 representing the most free and 7 representing the least free. An average of the two provides their “freedom status” indicator, which is reported below for Yemen, countries in the MENA region, and the comparator set of countries. Yemen fares less well than most of its comparators but comparable to or better than most of its regional neighbors.

**Freedom Status**

<table>
<thead>
<tr>
<th>Score</th>
<th>Country</th>
<th>Country</th>
<th>Score</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.0</td>
<td>Ghana</td>
<td>Mozambique</td>
<td>4.0</td>
<td>Jordan</td>
</tr>
<tr>
<td>3.5</td>
<td>Madagascar</td>
<td>Nepal</td>
<td>4.5</td>
<td>Zambie</td>
</tr>
<tr>
<td>4.0</td>
<td>Malawi</td>
<td>Jordan</td>
<td>5.0</td>
<td>Uganda</td>
</tr>
<tr>
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<td>Jordan</td>
<td>5.5</td>
<td>Kenya</td>
</tr>
<tr>
<td>5.0</td>
<td>Mozambique</td>
<td>Jordan</td>
<td>6.0</td>
<td>Angola</td>
</tr>
<tr>
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<td>Kuwait</td>
<td>6.5</td>
<td>Cambodia</td>
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<tr>
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<td>Malawi</td>
<td>Morocco</td>
<td>7.0</td>
<td>Iran</td>
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<tr>
<td>5.5</td>
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<td>Lebanon</td>
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<td>Oman</td>
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<td></td>
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<td>UAE</td>
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<td>Yemen</td>
</tr>
</tbody>
</table>

Scores: 1-7, with 1 representing most free and 5 representing least free. Composite Index of “political rights” and “civil liberties.”


**Euromoney Indicators:** The Euromoney’s Country Risk indicator is a weighted average of political risk, economic performance, debt indicators, debt in default, credit ratings, access to bank finance, access to short term finance, access to credit markets, and discount on forfeiting. Scores can range from 0 to 100, with 100 representing the least risk for investors and 0 representing the highest risk. Details on the variables and methodology used for each indicator are available on-line.

According to the September 2000 Euromoney Country Risk Indicator, Yemen ranked 111 out of 185 countries, an improvement over its March ranking of 137. (However, it is important to note that in this survey there are significant biannual variations in the country rankings, so this may not represent a trend.) Still, Yemen’s score of 34.0 places it well below nearly all of its regional neighbors, and the average regional score of 50.5.
Looking at comparator countries, in rank order Yemen was one of the better performers. However, in terms of scores,
there was little variation from the “most” risky in the group (Angola, 21) to the “least” risky (Kenya and Ghana, 38).
And with a group average of 31, investors may find the risk levels this set of countries considerable less appealing than
countries such as Taiwan or Hong Kong (about 80); Malta or Slovenia (about 70); Malaysia or Thailand (about 60); or
Costa Rica or Columbia (about 50).

(100 least risky, 0 most risky)
What’s New

Laws and Decrees

- Ratification of several protocol agreements between Yemen and the UAE on agriculture, health, and information (Republican decrees, June).
- Ratification of 21 protocol agreements between Yemen and Qatar, Kuwait, Saudi Arabia, Tunis, Morocco, Malaysia, and Ethiopia, concerning economic, investment, information, security, education, health and transportation (Republican decrees, August 31, 2001)
- Approval of the Bylaw of governorates and districts (Cabinet decree).
- Adding Minister of Human Right to Supreme Council for Motherhood and Childhood.
- Adding Minister of Human Right to Higher National Committee for the Welfare of Disabled.
- Approval of bilateral cooperation between Yemen and Morocco (Cabinet decree).
- Approval of Consular Agreement between Yemen and Federal Russia (Cabinet decree).
- Cabinet discussed ministry of Higher Education organizational bylaw.
- Approval of Al-Shura council internal bylaw.

[Once a proposed law is approved by Cabinet, it is submitted to Parliament. After Parliamentary ratification, the President signs the bill and it becomes a law. A Republican decree by the President has the force of law. Prime Ministerial and Cabinet decrees are legally binding decisions that usually deal with administrative matters].

Publications

- **AL-Musnad-Quarterly journal of antiquities history and cultural heritage of Yemen (The State Authority for Antiquities, Sana’a 2001)**. The Journal provides a variety of topics on antiquities and archeological sites in Yemen supported with spectacular photos in addition to studies and reports on Yemeni antiquities, museums and manuscripts.
- **Wild Yemen**, Yusef Mohageb and David Stanton (2001). This is considered the first Ecotourism guide in Yemen that contains 12 ecotourist sites in the vicinity of Sana’a. Activities range from short walks to long drives through some of Yemen’s most beautiful countryside.

Data and Statistical Information

- Central Bank of Yemen (CBY) **“Quarterly Statistical Bulletin” January – March 2001**: Banking and credit, balance of payments, debt and price data.
- Central Bank of Yemen (CBY) **“Annual Report for the Year 2000”**: Economic developments, production, government finance, money and credit, BOP, foreign trade and debt.
- Government Finance Information (MOF): **“Revenue and Expenditure Monthly Data for January-March 2001”**: Data are reclassified on the basis of the new budget classification system.
- The Agricultural Statistical Year Book was recently published. It contains agricultural statistical data of local production and prices for the last 5-year. It also includes the export and import of agricultural commodities.
- According to Traffic General Office (Al-Thawra Daily Newspaper on July 11th) that at least 759 died and 5,423 were injured in about 4,386 road accidents all over Yemen during the first half of 2001.
- The Survey Authority is looking for a successful bidder from among 25 world companies from United States, Britain, Germany, Canada, Russia, Norway, and others for creating a new map for Republic of Yemen through air digitalized shooting system. The map will include the international borders agreed upon with Oman, Eritrea, and Saudi Arabia. The map would be at scale of 50,000:1 and can be 20,000:1.
- Recent statistics record more than 80,000 foreign employees in Yemen, of whom 25% work in governmental organizations and receiving 15% of the state's budget. The rest work for the private sector.
- A biological statistical program on identifying fish locations in Aden has been carried out by the Center of Sea Science in Aden. It is supervised by FAO.
Conferences and Workshops (June-September 2001)

- The National Training and Malaria Research centers organized a training course on “Malaria Micro-diagnosis” during August 4-11. There were 12 trainees attending this course from Abyan and Hodeidah.
- The Specifications and Standards Authority organized a seminar on “Specifications and Standards” in cooperation with Dutch embassy and was attended by 100 individuals representing different governmental and private agencies.
- A Workshop on “Crafts by Handicapped: Participation in the Development Process” was organized in Aden by the Social Affairs and Labor Office.
- A training course for the appeal court’s general directors was organized by Ministry of Justice. The course included lectures on judicial administration, documentation, financial affairs, judicial discipline as well as legislations and fees. This course was one of a series included in the Justice Ministry’s judiciary reform program.
- A Seminar on “Establishing a Stock Market in Yemen” was organized by the Public Center for Studies, Research and Publishing.
- The Human Rights Information and Training Center in collaboration with the Arab Sisters Forum, organized in Taiz a workshop on participation in international conferences and the role of NGOs.
- A special symposium on the “Future Challenges of Water Consumption” was organized by Sana’a Radio station (General program) in collaboration with the German Cologne radio station. The symposium focused on the problem of water shortages and the future prospects, plans and solutions of the problem, and the public role in addressing water problems.
- Ministries of Industry and Trade, Justice and Culture organized jointly a symposium on the “Intellectual Property Rights” in collaboration with the World Intellectual Property Organization (WIPO). Issues pertaining to the role of judiciary in imposing the intellectual property rights and measures needed to realize the related laws and statutes were covered.
- Custom Authority with 37 personnel from several concerned government agencies took part in a symposium on Custom Tariffs.
- Consumers Protection Society will organize during 15-17 September, a seminar on “Import from Countries other than the Country of Origin”. The seminar aims to assess the impact of importing from countries other than the country of origin and to highlight related problems facing the business community and different other social groups.
- The Syndicate of Doctors and Pharmacists organized a scientific symposium on “Pharmacology and Medicine in Yemen”. It was attended by participants from all the governorates. The main aim of the symposium is the acquaintance with pharmacology in Yemen and the problems facing professional doctors and pharmacists in the country.
- A symposium on “Applying the Financial & Administrative Decentralization” was organized by the Ministry of Local Administration and has tackled the general basis for applying the decentralized system of governance, the trends of decentralization and its relation with the other executive departments.
- The Ministry of Labor and Social Affairs, the Federation of Workers’ Union and the Federation of the Chamber of Commerce & Industry organized a workshop on “Elimination of Child Labor”. The objective is to define the role of partnership with the ILO in the elimination of child labor.
- The First Symposium on “Traditional Management of Natural Resources and Environment” concluded in Taiz. The symposium was organized by the he Ministry of Agriculture and the Ministry of Tourism and Environment in co-operation with Al-Saedi Cultural Corporation and under the supervision of the Forth Branch Program-Taiz Branch. The symposium was attended by 30 officials working in natural resources and in environment protection agencies.
- The Ministry of Social Affairs and Labor, in collaboration with the ICFTU organized a workshop on “Rights of Working Women”. The Workshop concluded with a set of recommendation to enhance the activities of trade unions and syndicates and for the implementation of international agreements concerning working women.
- The Sisters Arabic Forum, in coordination with the International Human Rights Law Group, organized a regional workshop on "Building Effective Advocacy for Women’s Human Rights and Protecting Women Prisoners Rights." About 40 people participated; 20 representing civil society organizations; 9 representing governmental institutions; 5 participants from Egypt, Tunisia, Jordan, Malaysia, and USA presented papers on the situations of prisoners in their countries and on their experience in protecting women’s rights in general, and women prisoners in particular.
The Population Oxfam GB Yemen and Health Sector Reform Support Unit, and the Ministry of Public Health and Population organized a workshop on “The Cost Sharing in Primary Health Care in the Public Sector in Yemen”. The current cost sharing practices in public health financing was assessed as well their impact on the poor and vulnerable groups in Yemen.

The Ministry of Planning and Development in collaboration with the World Bank organized a workshop on the strategy of alleviating poverty.

**Donor Activities**

- The Dutch government offered DG 10 million for the decentralization process and improving local civil services.
- The United States offered a grant to Yemen totaling YR5 billion ($31.3 million). It will be utilized for implementation of a number of developmental projects in the fields of roads, water, education, bridges, etc.
- The Japanese government extended a Debt Relief Aid amounting to ¥ 246,795,000 (US$ 2 million). It is based on the resolution made by the Trade & Development Board of the United Nations Conference on Trade & Development (UNCTAD).
- Japan signed two agreements according to which the Japanese government presented ¥ 500 million grant for food production. Two other grants to Yemen of ¥ 137 million and ¥ 4,000 were also approved.
- Yemen and UNDP signed an extension of UNDP's on-going support to the National Demining Program of US$ 877,000 out of which US$710,000 will be forthcoming from the governments of the United Kingdom, Germany, Canada, and Sweden while the remaining amount will be provided by UNDP.
- The Government of Japan decided to extend a grant aid amounting up to US$ 40,800 to Amer and Uqbi Charitable Association for the implementation of a humanitarian and environment project in Old Sana'a.
- EU allocates Euro 1.885 million for community rehabilitation projects for health centers, water supply schemes and access roads in Socotra.
- France offered a new food aid of 9,125 tons of wheat flour (25% more than the grant of last year). Of this aid, 700 tons will be shipped to Socotra and rest will be marketed in Aden city and its revenue will finance food production development programs. Since 1983, France has been giving food aid to Yemen.
- The International Development Agency (IDA) approved the allocation of US$ 142.3 million in order to support 4 development projects (Rural Access, Rural Water Supply, Basic Education Expansion and Irrigation) during fiscal year 2001 (July 2000 to June 2001). This is a decline compared to lending commitments of US$ 160.5 million in 2000 and US$ 181.5 million in 1999. IDA’s credits to Yemen have a 40-year maturity, including a 10-year grace period and a service charge of 0.75 percent per annum.
- The Abu Dhabi Fund for Development offered a US$ 40 billion for funding the second phase of Marib Dam Project. The UAE previously implemented the first phase of the dam construction at the estimated cost of US$ 90 million.
- The Kuwaiti International Development Corporation will offer loans to fund small enterprises for about 1,000 Yemeni poor families in the capital Sana'a. Some of these enterprises are owned by women in activities such as sewing and garments. The Corporation adopted more than 400,000 to support the poor families in Yemen, Egypt, Lebanon, Malaysia and Indonesia.