



Annual Progress Report
of the
Poverty Reduction Strategy
for 2005

(Non Edited Translation)

Annual Progress Report of the Poverty Reduction Strategy for the Year 2005

(Non Edited Translation)

**Poverty Monitoring Central Unit
Ministry of Planning and International
Cooperation**

July 2006

List of Contents

Introduction	1
Chapter One: Performance of the National Economy and Economic Policies	4
Part 1: Evolution of the Economic Situation	5
Gross Domestic Product	5
Agricultural Sector	6
Fisheries	7
Oil and Gas	7
Manufacturing Industries	8
Service Sectors	9
Consumption, Savings and Investment	9
Investment Environment and the Private Sector	10
Impact of Economic Growth on the Poverty Level	11
Employment and Unemployment	12
Development of Monetary and Banking Policies	12
Inflation and Prices	14
Foreign Sector	15
Part 2: Evaluation of the Public Budget's Performance	16
The General Status of the Public Budget	16
Development of Public Revenues	17
Oil Revenues	17
Non Oil Revenues	17
Public Expenditure	18
Current Expenditure	19
Developmental and Social Expenditure	20
Domestic Public Debt	21
Financial Decentralization	21
Chapter Two: Human Resources Development and Social Protection	23
Part 1: Human Resources Development	24
Population and Public Health	24
Status of the Population	24
Health Care and Improving People's Health	26
Education and Training	28
Combating Illiteracy and Reducing Poverty	29
Basic Education	29
Technical Education and Vocational Training	30
Targeting Poor Categories	32
Higher Education	32
Part Two: Social Protection	33
Targeting Poor Areas and Categories	33
Social Insurance	35
Social Affairs	35
Gender Integration	36

Chapter Three:	38
Environment, Natural Resources and Infrastructure	
Part 1: Environment and natural resources	39
Environmental Protection and Maintenance	39
Water Resources	41
Irrigation and Water Installations	42
Part 2: Infrastructure	43
Water and sanitation	43
Electricity Sector	44
Electricity Services in Rural Areas	45
Generating Energy from New Sources	45
Road sector	46
Transportation Sector	47
Maritime Transportation	48
Air Transportation	48
Land Transportation	48
Communication and Information Technology Sector	49
Post and Postal Savings	50
Housing and Urban Planning	51
Chapter Four:	52
Good Governance	
Judiciary and Justice	54
Security and Achieving Stability	55
Corruption Control and Protection of Public Funds	56
Public Budget Reform	57
Civil Service and Administrative Reform	57
Strengthening Human Rights	58
Consolidating and Enhancing Democracy	59
Local Authority	59
Non-Governmental Organizations	60
Tables	
Table 1-1: Real GDP Growth	5
Table 1-2: Real GDP by Sector	5
Table 1-3: GDP According to Expenditure (%)	9
Table 1-4: Debt Burdens on Private Sector Activities	10
Table 1-5: Getting Governmental Services	11
Table 1-6: Obstacles Hindering Investment	11
Table 1-7: Currency Supply (Billion Riyals)	13
Table 1-8: Deposits in Commercial Banks	13
Table 1-9: Distribution of Bank Loans other Than Governmental Loans (%)	14
Table 1-10: Balance of Payments (% of GDP)	15
Table 1-11: Status of Public Budget and its Financing Sources (% of GDP)	16
Table 1-12: Public Revenues (% of GDP)	17
Table 1-13: Public Expenditure (% of GDP)	19
Table 1-14: Public Expenditure According to Job Classification (%of GDP)	20
Table 1-15: Financial Resources of Local Authority (million Riyals)	21

Table 1-16: Financial Expenditure of Local Authority (million Riyals)	22
Table 1-17: Development of Principle Indicators for 2005	22
Table 2-1: Controlling Bilharzia	28
Table 2-2: Enrollment in Training Institutions and Social Sciences Faculties during 2005/06	31
Table 2-3: Trends of Insurance Indicators	35
Table 2-4: Social Protection Activities in 2005	35
Table 2-5: Development of Major Indicators in 2005	37
Table 3-1: Development of Major Infrastructure Indicators for 2005	51
Table 4-1: Position of Yemen with Respect to Good Governance Indicators	53
Table 4-2: Activities of the Judiciary Inspection Authority	54
Table 4-3: Development of Judicial Information Systems	55
Total 4-4: Public Finance Management Reform Strategy	57
Boxes	
Box 1-1: Rainfed Agricultural Project	6
Box 1-2: Organizing the establishment of industrial areas	8
Box 1-3: Medium-Term Financial Framework	17
Box 2-1: Structural Change in Population Age Pattern	24
Box 2-2: The Evaluation by the Poor of Health Services	26
Box 2-3: The Evaluation by the Poor of the Immunization Services	27
Box: 2-4: Role of the Private and Civil Sectors	29
Box 2-5: Factors to Support Girls' Education from the Point of View of the Poor	29
Box 2-6: Higher Education and Scientific Research Strategy	32
Box 3-1: Examples of Environmental Studies	40
Box 3-2: Results of the Wells Survey Study	45
Box 3-3: Electric Power Sources	44
Box 3-4: Electric Power Tariffs	44
Box 3-5: Rural Electricity Strategy	45
Box 3-6: New and Renewable Energy	46
Box 3-7: Roads Constructed and their Financial Cost	46
Box 3-8: The Information Gap and its Effect on Development	49
Box 4-1: Adoption of Good Governance Reforms	53
Box 4-2: Degree of Reliance on Courts and Security Forces	54
Box 4-3: Matrix of Reforms	56
Box 4-4: Issues Related to the Reform of the Financial Management	56
Box 4-5: The Local Authority from the Point of View of the Poor	59
Box 4-6: The Improvement of the Role of NGOs	60
Figures	
Fig 1-1: Relation between GDP and Poverty Level	11
Fig 1-2: Inflation without Qat (end of period)	14
Fig 2-1: Value of Free Medicines According to Regions in 2004-2005	26
Fig 2-2: Malaria Control during the Period 2003-2005	28
Fig 3-1: Asphalted distances (km)	47
Fig 3-2: CIT indicators	50

Introduction

This third Annual Progress Report (APR) on the Poverty Reduction Strategy (PRS) reflects the efforts made by the Poverty Monitoring Central Unit in the Ministry of Planning and International Cooperation (MPIC), the sub units at the line ministries and governmental organizations, civil society organizations engaged in poverty reduction, as well as the private sector. The Report also pursues procedures, policies and projects implemented in 2005 in accordance with the Poverty Reduction Strategy goals and in the light of the policies and procedures matrix contained in the second Annual Progress Report for the years 2003 and 2004. The Report provides answers for the major issues raised, especially the progress made in achieving the Strategy's goals and objectives which varies according to the sector, and sometimes even within the same sector.

This APR is distinguished by being more comprehensive than the two previous reports, by containing a larger number of measurable indicators, and by incorporating the remarks and proposals made with regard to the previous progress report. This third report is the final one in the series of Strategy Progress Reports, following up on the incorporation of the Third Five Year Plan (TFYP) and the Poverty Reduction Strategy (PRS) in one document covering the period 2006-2010. The aim is to cut down on the efforts made in the preparation, follow-up and supervision, according to a new vision which embraces the trends and demands of the coming period and which takes into account the remarks which surfaced during the monitoring and evaluation process in previous years.

The Report is composed of four chapters. Chapter One focuses on the evolution of the economic situation and on the performance evaluation of the public budget. It reviews the growth of the Gross Domestic Product (GDP), and its contribution to the increase in revenue and to providing additional employment opportunities. It also reviews the various sources of national economic growth, beginning with the agricultural sector which is the foremost contributor in the real GDP, and therefore the one on which depends poverty reduction. It is followed by the fisheries sector which has a great deal of economic potential, followed by the oil, gas and manufacturing industries sectors, and lastly the various service sectors including personal services and community services. This chapter also deals with the issues of consumption, savings, investment and investment climate, as well as the activities of the private sector and its contribution to poverty reduction. Moreover, chapter one examines the impact of economic growth on the levels of poverty, issues of employment and unemployment, development of the various aspects of monetary and banking policies, evaluation of the performance of the public budget and the procedures adopted for the development of public revenues from oil and other sources, public expenditure, current or investment, as well as expenditure on social development, which is of particular importance to poverty reduction policies.

Chapter Two appraises achievements and highlights the procedures implemented in

the Strategy's axes on human resources development and social protection. The realization of the goals of these sectors is largely connected to a number of factors related to policies, procedures and available financial resources. It is also connected to the integration of basic social services such as the expansion of education, the expansion of health services' coverage and the facilitation of accessing them by the poor, as well as achievements in road-building, especially rural roads, water, electricity and modern communications projects.

Chapter Two also provides a detailed review of the population policies and procedures, related problems and achievements, by dealing with health care achievements aiming at better health for all, the poor in particular, with special emphasis on women, children and those with special needs. It likewise examines the various education and training issues, starting with literacy classes and adult education, moving on to basic, secondary, technical, as well as higher education, while detailing achievements in this field and pointing out the constraints and difficulties impeding their development. Moreover, it deals with issues of the two dimensions of social protection, the modern or Social Safety Net, and the traditional which includes social insurance and social affairs, emphasizing the targeting of poor areas and groups. Lastly, the Chapter deals with women and gender issues and the mechanisms for involving women into the mainstream of the development process, as well as measures to reduce their poverty, while clearly highlighting gender issues and the achievements made, taking into account that most of the remarks regarding previous reports focused on this aspect.

Chapter Three refers to the topics of environment and natural resources by focusing on achievements made, the importance of environmental protection, preservation, maintenance and increasing awareness concerning environmental issues. It also incorporates an analysis of the state of environmental sanitation as well as water resources, which include irrigation and water facilities. Moreover, it reviews achievements made on infrastructure development including the water, sanitation and electricity sectors, focusing on electricity services in rural areas and the resulting benefits which go to the poor, as well as achievements made in the road sector and network connections at the regional inter-city levels, and between towns and rural areas, most of whose inhabitants are poor. Chapter Three also highlights achievements realized in the air, maritime and land transportation sector, and concludes with achievements made in the communications, information technology, postal services and savings, and the housing and urban planning sectors.

Finally, Chapter Four deals with issues of good governance, which is the fifth axis of the Strategy that supports all the other axes of the Strategy. The Chapter deals with the Yemeni government's achievements in the field of good governance, especially after of the implementation of the financial and administrative reforms package, and following the preparation of the National Agenda for Reforms. It includes achievements in the fields of justice and the judiciary, security and stability, issues of combating corruption and the protection of public funds. The Chapter also deals with

reform of the state budget, accomplishments in the field of civil service and administrative reform, issues of consolidating human rights and democracy, as well as developments in the fields of local authority and NGOs and their contribution to poverty reduction.

Chapter One

Performance of the National Economy and Economic Policies

Part 1

Evolution of the Economic Situation

Gross Domestic Product

Economic growth and its rapid pace contribute, directly and indirectly to poverty reduction, particularly in increasing income and creating additional job opportunities. The extent of this contribution depends on the nature of the sources of growth in the national economy. Real GDP realized a growth rate that reached 4.6% in 2005, which is considered as the highest rate achieved by the national economy during the three years of the Strategy. However, it remained 0.9% below the Strategy's target which was set at 5.5%. This positive development has reflected on the growth of the per capita share of real GDP, which rose from 0.8% in 2004 to 1.5% in 2005. But it was still below the Strategy's targeted objective estimated at 2.5%.

Table 1-1: Real GDP Growth

Item	Level of Achievement				Target		
	2003	*2004	*2005	Average	2003	2004	2005
Real GDP	3.8	3.9	4.6	4.1	3.7	5.3	5.5
Per capita share of real GDP	0.6	0.8	1.5	1.0	0.5	2.1	2.5

Table 1-2: Real GDP by Sector

Item	Growth %				Contribution in Real GDP %			
	2003	*2004	*2005	Average	2003	2004	2005	Average
Extraction of crude oil	-2.1	-5	-4.7	3.9	14.9	13.7	12.4	13.7
GDP of non oil sectors such as:	4.9	5.4	6.1	5.5	85.1	86.4	87.6	86.3
Agriculture, forestry, fisheries	2.1	3.1	6.3	3.9	20.2	20.1	20.4	20.2
Manufacturing industries	3.9	3.7	8.8	5.5	9.5	9.4	9.8	9.6
Building and construction	7.5	6.7	2.7	5.6	2.2	2.3	2.2	2.2
Wholesale and retail trade, restaurants and hotels	7.1	6.1	6.8	6.6	8.8	9.0	9.2	9.0
Transport, storage and communications	5.9	10.4	7.5	7.9	12.5	13.3	13.6	13.1
Financing, insurance, real-estate and business services	4.0	3.6	6.7	4.8	8.9	8.9	9.0	8.9
Government services producers	4.0	4.0	4.3	4.1	20.5	20.5	20.4	20.4

* Initial estimated data

In view of the continuous dependence of the national economy above all on the agriculture, forestry and fisheries sector, followed by the oil sector, improved weather conditions and rainfall during 2005 have largely contributed to the achievement of the highest growth rate of the sector during the years of the Strategy, as it reached 6.3% and consequently enhanced its contribution to real GDP to 20.4%, compared to 20.1% in 2004. Moreover, the manufacturing industries, as well as the financing, insurance, real-estate and services sectors have witnessed marked increases in their growth rates. This contrasted with the insignificant growth in the wholesale and retail trade, restaurants and hotels sector, and also the governmental services producers sector. As for the extraction of crude oil, it continued to realize a negative rate of growth,

whereas the growth rates of the building and construction sector as well as the transport, storage and transportation sectors dropped during this year.

Agricultural Sector

The agricultural sector is considered as one of the principal sectors due to its contribution of nearly 19.4% of real GDP in 2005 and is the main source for food production in addition to the fisheries sector; furthermore it employs more than half of the workforce in the Yemeni economy, especially in the rural areas inhabited by most of the poor. Agricultural growth and its productivity depend on a number of natural, human and financial factors, in particular the amount of rainfall and the volume of investments.

The agricultural sector in 2005 managed to attain a real average growth of 6.3% compared to 2.6% in the past two years. This was essentially due to abundant rainfall and the increase in benefiting from water harvesting, as well as the improvement of the agriculture extension services extended to farmers, and the utilization of organic fertilizers. Hence the negative growth of -12.3% in rainfed agriculture in 2004 changed into a positive growth of 5.2%, which exceeded the rate achieved by irrigated crops, that fell 2.8% from the previous year to an estimated 2.9% in 2005.

Rainfed agricultural products include cereals and vegetables, which are concentrated mainly in mountainous regions and highlands. The area of rainfed crops constitutes nearly 60.8% of the total cultivated area, although its production represents 14.2% of overall agricultural production. On the other hand, irrigated agricultural crops cover 39.2% of the total cultivated area and constitute nearly 85.8% of the overall agricultural production. These indicators reflect a wide ranging disparity in the utilization of agricultural land and its productivity. Moreover, it indicates the marked weakness of the capacity of rainfed agricultural production; the production of one hectare of rainfed agriculture is estimated at nearly 0.8 tons compared to 7.5 tons for one hectare of irrigated agriculture. Low rainfall and its fluctuation from year to year, plus the agricultural soil's degradation and declining fertility, as well as its erosion in mountainous areas, in addition to the continuous use of conventional agricultural methods and techniques in rainfed crops have all adversely affected the productivity of rainfed land.

Irrigated crops have maintained their high productivity and their predominance over the cropping pattern of the agricultural sector. Consequently, high financial revenues were realized which has encouraged investment in this sector. However, the extensive utilization of pesticides and organic fertilizers without regulation and clear directives has led to the deterioration of

Box 1-1: Rainfed Agricultural Project

The loan extended by the World Bank to consolidate the rainfed agriculture is expected to boost the productivity of the rainfed land and consequently will contribute to poverty reduction among farmers by raising their income through agricultural activities and animal husbandry. This loan amounts to nearly 30 million US Dollars, of which the International Development Agency (IDA) of the World Bank Group has contributed by 25 millions.

the fertility and quality of agricultural soil through increasing its salinity, thus harming the consumer's health. Such a matter requires adopting stringent measures to face this situation.

Fisheries

The fisheries sector is one of the promising economic sectors that can contribute to achieving sustainable growth and promoting non oil exports, thus supporting the efforts exerted to alleviate poverty. But fish production has dropped to nearly 239,100 tons compared to nearly 256,400 tons in 2004 due to the impact of adverse climatic conditions wreaked by the tsunami, as well as the measures and controls adopted by the Ministry of Fisheries on traditional and industrial fishing in order to protect fisheries. Nonetheless, the value of fish production increased by nearly 14.4% in 2005 to reach 51 billion Riyals, which raised the contribution of the sector to real GDP to 1.1%. Furthermore, the amount and value of fish exports grew at a rate of 11.5% and 13.2% respectively to reach 84,300 tons worth 241.6 million US Dollars.

Studies estimate that fish production and its exports have not yet attained their latent capacity, especially as the sector employs around 300,000 workers, 65,000 of whom are fishermen engaged in traditional fishing which constitutes 99% of fish and seafood production. There is a need to exploit the capabilities of the sector by providing technical support, services and infrastructure, as well as to create a favorable environment to motivate and encourage the private sector to invest in this industry. Public expenditure on the fisheries sector reached almost 1,977 million Riyals in addition to 564 million Riyals disbursed by the Agricultural and Fishery Production Promotion Fund covering 21 projects and programs.

Oil and Gas

Two new sectors started production in 2005, bringing the total number of productive sectors to eleven, which has slowed down the fall in crude oil production; daily production fell from 404,000 barrels in 2004 to 400,000 barrels in 2005. This exceeded by far the Strategy's objective of 370,000 barrels per day. The state's share of crude oil production fell 1.5% and of exports 4% that reached 2,747 million US Dollars with an increase in value of 34% from the previous year due to the rise in the average price per barrel of exported oil from 36.5 US Dollars in 2004 to 51.2 US Dollars in 2005 compared to 19.9 US Dollars forecasted in the Strategy. The continuation of drilling development wells in productive sectors and the emergence of new discoveries in bedrocks is a positive indicator for maintaining the present standards of production.

The corrective measures undertaken by the Yemeni government in July 2005 to change the prices of oil derivatives sold locally has contributed to reducing the increase in domestic consumption to 1.4% compared to almost 6.6% in 2004. At the same time, these measures reflected positively on revenues which increased 50% to reach 218.2 billion Riyals compared to 144.1 billion Riyals in the previous year. Also

revenues from liquefied gas sold locally increased 60% this year, although there was a slight drop of 0.6% in the volume of local consumption.

The year 2005 marks a change in the economic exploitation of liquefied natural gas (LNG) estimated at almost 16 trillion cubic feet, thus achieving one of the objectives of the Strategy for diversifying the sources of revenue for the national economy and expanding its productive base. The final agreements of the project were concluded with foreign companies at a total cost of 3.7 billion US Dollars to sell 6.5 million tons annually to the Korean and American markets. The start of work on this project until the production of LNG comes on stream at the beginning of 2009, will allow the employment of thousands of workers and the development of gas exporting areas.

Manufacturing Industries

The manufacturing industries sector has achieved in 2005 the highest growth rate during the years of the Strategy and soared 8.8%, an increase of 5.1% from the previous year and 2.6% above the rate targeted by the Strategy. Nonetheless, its contribution to real GDP increased from 9.5% in 2004 to 9.8% in 2005. Furthermore, the rate of employment in the sector rose successively by 7%, 8%, and 9% during the years of the Strategy. It is expected that the sector's workforce will reach 162,200 at the end of 2005.

These positive developments are due to increased private, public and joint investments in the sector during 2004 and 2005 that rose by an average of 85.9 billion Riyals compared to almost 78.2 billion Riyals in 2003. This was reflected in the introduction of new projects or the expansion of some of the existing industries such as cement, grain mills, and

iron and steel manufacturing which is considered as one of the main industrial investment projects. Other small and medium industrial enterprises entered the production stage. Yet the sector continues to confront obstacles that hinder its achievement of the goals defined by the Strategy.

The contribution of small industries to production fell from 10% of the overall industrial production in 2002 to nearly 7.3% in 2005, although they constituted almost 95% of the total of industrial enterprises. Therefore, it is necessary for the government and the private sector to increase their support and attention to small industries to reduce unemployment rates and boost the efforts exerted to reduce poverty, especially since the workforce in these industries fell from 51.3% of the overall industrial workforce to 41.8% during the same period. The cabinet approved at the beginning of the year the National Strategy for Developing Small and Micro Enterprises, which will be implemented by the Social Fund for Development (SFD).

Box 1-2: Organizing the Establishment of Industrial Areas

The Cabinet issued decrees during 2005 for speeding the establishment and expansion of industrial areas: Presidential decree n° 74 for 2005 on organizing the establishment, management and supervision of industrial areas as well as decree n° 79 for 2005 which specified the establishment of five new industrial areas in each of the governorates of Aden, Al-Hodiedah, Hadhramout, Lahaj and Abyan.

Service Sectors

The service sectors in 2005 realized an average real growth rate of 7%, their contribution to real GDP amounted to 31.8%, and reached 34% when personal and community services were added. Growth in these sectors helps in creating more job opportunities. They basically include wholesale and retail trade, restaurants and hotels that achieved a real growth of 6.8%, also transport, storage and communications that increased by 7.5%, and finally insurance, real-estate and business services that increased by 6.7%. The drop in growth to 10.4% compared to the previous year of the transportation, storage and communications sectors points to the necessity of continuing with liberalization measures in order to expand and increase activity. At the same time, real growth achieved by governmental services producers was 4.3% with a share in GDP of 20.4%. Furthermore, due to the relative stability of the security situation during the year, the facilitation of entrance procedures for foreigners and tourism campaigns, the number of tourists continued to rise and reached 336,100 tourists in 2005 with a total tourism expenditure of 262 million US Dollars compared to 293,700 tourists with a total tourism expenditure of 214 million US Dollars in the previous year.

Consumption, Savings and Investment

Final aggregate consumption reached 78.6% of GDP in 2005 and was 8.3% below the target of the Strategy, remaining practically stable over the years of the Strategy. Whereas private consumption rose to 66.5% of GDP, which is close to the target of 68.9%, public consumption dropped to 12.9% of GDP in 2005, which is 5.6% below the target of the Strategy. Growth in private consumption reflects the positive impact of higher wages and salaries on the one hand and the relative stability of the prices of agricultural products on the other.

Aggregate investment increased to 21.9% of GDP compared to 19% in 2004 although it fell short of the Strategy's target of 26%. Moreover, government investments continued to account for the largest share of total investments with 53%, whose growth has leaped from 10.3% in 2004 to 35.4% in 2005. Accordingly private investments realized 38.9% compared to a negative growth of -17.1% in 2004, resulting from the start-up of operations at the natural gas project and other large projects by the private sector.

Table 1-3: GDP According to Expenditure (%)

Item	Level of Achievement			Target		
	2003	2004*	2005*	2003	2004	2005
Final aggregate consumption	78.3	78.4	78.6	84.9	86.3	86.9
Private	64.0	64.9	66.5	67.2	68.6	68.9
Public	14.3	13.5	12.1	17.7	17.7	17.9
Total investment	23.2	19.0	21.9	24.6	25.8	26
Total absorption	101.5	97.4	100.5	109.5	112.1	112.9
Balance of goods and services:	-1.5	2.6	-0.5	-9.5	-12.1	-12.9
Export goods and services	36.2	36.8	34.0	32.1	28.6	25.5
Imports goods and services	37.6	34.2	34.5	-41.6	-40.6	-38.4

* Estimated data

The inability to increase overall investments to the level that would realize the strategy's goals during the three years constituted a real challenge to the socio-economic development process and to efforts exerted by the government to reduce poverty. The relative rise in government investments and the achievement of high rates of growth is due to increased oil revenues, especially oil exports, as a result of the continuous increase in international oil prices, in addition to the government's efforts to upgrade the infrastructure of the national economy that supports the accomplishment of the other strategic goals. Contrary to this, the fluctuations in the growth of private investments and their falling short of the amounts targeted by the Strategy is due the investment environment that has proven to be incapable of attracting more national and foreign investments. Moreover, the slow implementation of the privatization program and the problems faced by the process of promoting and developing the free zone of Aden have reflected on private investments and on improving the investment environment. This situation will continue to considerably impact the government's capability to achieve development goals and objectives, as well as its efforts for reducing poverty.

Investment Environment and the Private Sector

The Strategy focused on providing an environment that is conducive to private sector investment and redressing market distortions so that non- governmental investment including that of public institutions may increase gradually from 15.3% of GDP in 2002 to 18% in 2005, in addition to securing government investments ranging from 8% to 8.6% of GDP during the years of the Strategy. On the contrary, government investments increased to 13.2% of GDP in 2005, whereas private investments reached 11.4% which is 13.9% below the target of the Strategy. Private investments averaged 52% of total investments during the period 2001-2005, which is below the target set in the Second Five-Year Plan. Projects licensed in 2005 by the General Investment Authority reached 329 with total investments of 115 billion Riyals and 8,900 job opportunities.

Yemen was ranked last among 12 Arab countries in the Arab World Competitiveness Report of 2005 issued by the World Economic Forum. In the "Doing Business 2006" report that monitors developments in 2005 Yemen ranked 90th out of 155 countries at the international level in the index on simplifying the business environment. Moreover, out of ten indicators in this report, Yemen's standing improved on six of them but dropped on the other four, which affected its general ranking. Yemen ranked 151st in the starting business

Table 1-4: Debt Burdens on Private Sector Activities

Tax	No. of payments	Time in hrs	Tax Rate	Tax Source	Paid Tax (% Total Profit)
Company income	1	56	35	Company revenues	17.7
Production	12	120	10	Value of production or sales	107.1
Contribution in social insurance	12	72	9		11.6
Equity	1	-	15	Total salary	0.3
Ownership transfer	1	-	3	Annual lease	1.1
Zakaat, business tax	1	-	2	Sales prices	2.1
Transportation fees	1	-	20,000	Capital	0.2
District fees	1	-	25,000		0.3
Tax on insurance contracts	1	-	2	Value of contract	0
Fuel tax	1	-	2	Price of fuel	0

* Doing Business 2006

indicator, 137th in acquiring credit, 112th in paying taxes and 108th in investor protection. The rank of Yemen remained the same on the index of economic freedom in 2005, issued by the American Heritage Foundation.

Initial results of the survey undertaken by the World Bank to evaluate the investment atmosphere in 2005 on a random sample that included 448 private enterprises in five governorates indicated numerous obstacles hampering investment. These were in particular: ambiguous macroeconomic policies, high tax rates, inefficient tax management, the absence of conditions for fair competition, the spread of corruption, the smuggling of goods into Yemen, the lack of sufficient electric power to meet the needs of the private sector and its activities, in addition to the rigidity of trade and customs systems. The initial results of the survey defined the nature of procedures for acquiring basic governmental services, which were described as lengthy and very slow.

Table 1-5: Getting Governmental Services

Service	Installing Electricity	Installing Phone	Installing Water	Work License	Customs Clearance	Export Measures
N° of days	30.5	13.5	13.5	11.6	14.8	6.2

In total, this survey concurs with that carried out on the private sector environment by the World Bank in 2001, in which the biggest tier of private enterprises (50% or more) indicated that the major factors negatively affecting investment were: the lack of economic stability, corruption, high tax rates, unfair competition, smuggling, dumping, crime, theft, the judicial system, electricity problems, taxation management, judiciary problems and the settlement of disputes. Hence, the viewpoint of the private sector reflects minor improvement of the investment environment.

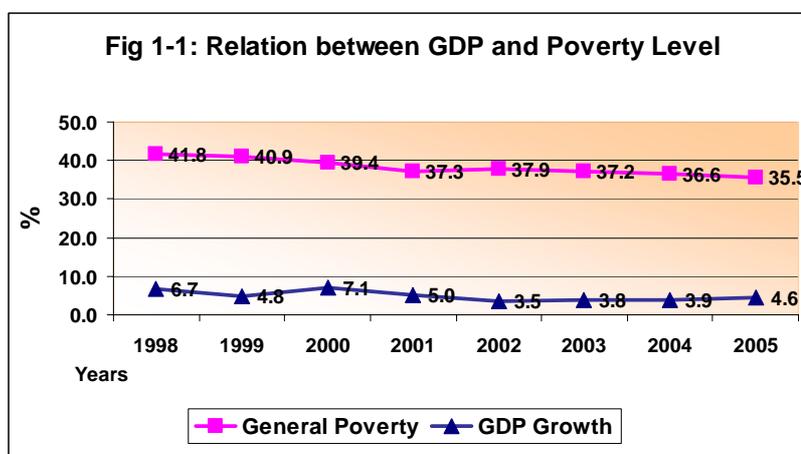
Table 1-6: Obstacles Hindering Investment

Obstacles	Enterprises%
Macroeconomic policies	73
Tax rates	71
Corruption	61
Tax management	54
Unjust competition	52
Smuggling	52
Electricity	47
Trade and customs systems	40
Acquisition of land	37
Financing cost	34
Legal system	31
Procedures for getting finance	28
Work licenses	24

* Source: Survey on Yemeni private sector enterprises 2005

Impact of Economic Growth on the Poverty Level

Owing to the absence of the updated results of the family budget survey which will be completed in the first quarter of 2006, estimates indicate that the General Poverty dropped from 41.8% in 1998 to 35.5% in 2005.¹ The urban poor have mainly benefited from this drop as the General Poverty Indicator fell in urban



¹ Poverty projections depended on a simulation model of the results of the 1998 Family Budget Survey assuming that the growth rate in expenditure per capita is the same as the GDP growth rate.

areas by 39% compared to 9% in the rural areas. The same applies to the poverty gap which measures the extent of poverty; although it was reduced in general by 14% its reduction in urban areas reached 45% compared to 9% in rural areas. This indicates that poor categories in urban areas are closer to the poverty line, whereas the poverty gap in the rural areas remains wide at 11.3%. At the same time the incidence of poverty has declined by 13% in total, a drop of 50% in urban areas and 10% in rural areas. It also implies that there was an insignificant improvement among the poor categories in rural areas.

Employment and Unemployment

The negative effects of economic growth and the imbalances in the GDP's structure as well as the impact of financial and monetary policies on the labor market continued during 2005. In the light of the balance of human resources, the number of employees stood at about 4,148,000 in 2005 at a growth rate of 0.33%, which is considered less than that realized in 2003 and 2004 when it reached 2.7% and 2.1% respectively. These figures reflect a decrease in new job opportunities and the inability of the national economy to move in tandem with the growth of the workforce estimated at 4%. Hence, the problem of unemployment is one of the major and fundamental challenges confronting the national economy. Consequently, unconventional policies and measures are necessary along with short and medium term plans, due in particular to the current size of the population and its growth rate.²

Development of Monetary and Banking Policies

The net increase in foreign assets in the banking system reached 153 billion Riyals in 2005 thereby strongly affecting the monetary supply which had dropped slightly to 14.4% compared to 15% in the previous year. Moreover, the net domestic assets of the banking system fell by 21 billion Riyals. This situation affected the position of the public budget with the banking system whereby the surplus increased from 20 billion Riyals in 2004 to 27 billion Riyals in 2005. The Central Bank continued to maintain the minimum indicative interest rate at 13% on Riyal deposits, a policy it has adopted since July 2000. Interest rates fluctuated between 15-22% on loans, 10.5% on savings and 12-15% on deposits. The Central Bank's determination to maintain this rate is meant to sustain a positive interest rate on the Riyal and secure financial control to achieve monetary stability.

Currency in circulation remained stable, ranging between 42.6% and 43% of monetary supply in 2004 and 2005 respectively. However, quasi-money rose relative to monetary supply from 13.3% to 33.9%. This indicates an increase in preferring to keep deposits in foreign currency especially after the Riyal was devaluated with respect to the US Dollar by 5% during 2005 compared to a fall of 1% in 2004. The Central Bank had to intervene by selling 1,174 million US Dollars in 2005 compared to 740 million Dollars in the previous year, as the Yemeni Riyal was exposed to numerous pressures

² It lately dropped to 3% according to the 2004 General Population and Household Census.

especially during the first half of the year. Furthermore, the Central Bank raised the average mandatory reserves on foreign currency deposits from 20% to 30% free of interest in order to curb speculation on foreign exchange and promote savings in Yemeni riyal. The Central Bank follows a policy of floating exchange rates and limits its intervention to cases of major short term market fluctuations caused by non economic factors.

Table 1-7: Currency Supply (Billion Riyals)

	2001		2002		2003		2004		2005	
	%	value	%	value	%	value	%	value	%	value
Currency supply:	100	563	100	664.7	100	797.4	100	917.3	100	1049.5
Currency outside banks (circulated)	37.8	212.8	36	239.3	33.7	268.8	32.5	298	0.32	330.6
Deposits under demand	12.4	69.9	10.1	67.1	9.9	78.7	10.1	92.6	0.11	111.8
Deferred deposits in local currency*	17.1	96.4	20.9	139.1	22.5	179.4	26.1	239.5	23.97	251.6
Foreign currency deposits	32.7	184	33	219.1	33.9	270.5	31.3	287.2	33.87	355.5
Growth of currency supply %	18.7		18.0		20.0		15.0		14.4	

* Includes term deposits, savings and specific deposits

The aggregate balances of banks grew at a rate of 14%, which is 8% lower than the previous year. Unfavorable exchange rate developments affected aggregate deposits at commercial banks which increased by 64 billion Riyals or 11% compared to 99 billion Riyals in 2004, an increase of 22%. Foreign deposits represented 82% of the increase, rising from 264 billion Riyals to 317 million Riyals, whereas Riyal deposits increased only by 12 billion Riyals. This situation led to a drop in quasi-money in Riyal relative to the large money supply from 38% in 2004 to 36% in 2005, and raised foreign currency deposits to the large money supply from 31% to 34%. Also, the increase in foreign currency deposits was reflected in an increase of 2% in net foreign assets of commercial banks, despite a decline in the relative importance of foreign assets to overall assets of commercial banks from 24% in 2004 to 22% by the end of 2005.

Table 1-8: Deposits in Commercial Banks

Item	2002	2003	2004	2005
Total deposits (Billion Riyals)	388	475	574	637.9
Local currency deposits (Billion Riyals)	189	236	309	321
Foreign currency deposits (Billion Riyals)	199	239	264	316.9

The growth of commercial banks investments in terms of securities and certificates of deposit and in terms of credits extended to the private sector declined from 26% and 3% in 2004 successively to 4% and 21% in 2005. Credit extended to the private sector increased by 39 billion Riyals in 2005 to reach 223 billion Riyals. However, the role of commercial and Islamic banks as financial intermediaries remained limited as their loans represented only 28% of total commercial bank assets, nearly the same in the previous two years. The larger part of investments, namely 66%, is invested in risk-free or low risk foreign assets and instruments representing 22% of total assets, in addition to 25% invested in securities and certificates of deposit, and 19% in accounts with the Central Bank. The remainder constitutes other assets.

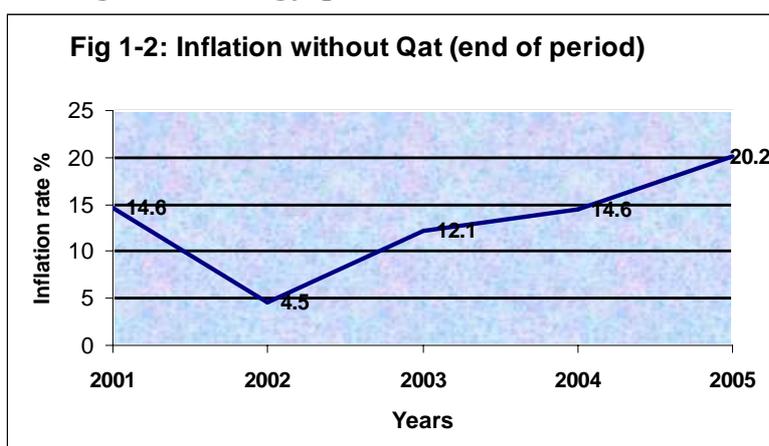
The private sector continues to receive the larger portion of loans and credit facilities from commercial banks, accounting for 55.6% of the total, while the government receives the remainder. Trade financing accounted for 52% of total loans from commercial and Islamic banks to the private sector compared to 49% in 2004. Credits and loans to the industrial sector declined from 36% to 5% only during these two years. Consequently, their relative importance fell from 15.9% to 13.9% of total loans granted by Islamic and commercial banks to the private sector. Furthermore, the volume of financing for agricultural and fishery activities remained moderate and its relative importance ranged from 0.5% to 1.7% during the period from 2003 to 2005. Loans and credits extended to the building and construction sectors increased by 33% compared to 37% in the previous year, and its relative importance increased to 7.3% compared to 6.6% during the two years. Therefore, although total loans and credits granted to the private sector by commercial and Islamic banks rose, their growth declined in 2005 to 21% compared to 33% in the previous year. In fact, the volume of these loans and credits is well below the level of available surplus funds at Islamic and commercial banks, because there was no mentionable improvement in addressing the factors that weaken the banks' capability to utilize the surplus funds.

Table 1-9: Distribution of Bank Loans other Than Governmental Loans (%)

	2002	2003	2004	2005
Agriculture & fisheries	1.0	0.5	1.2	1.7
Industry	16.0	15.5	15.9	13.9
Building & construction	5.3	6.4	6.6	7.3
Financing exports	0.8	1.0	1.2	1.8
Financing imports	15.1	14.9	16.6	20.6
Financing trade in goods & services	21.3	22.6	22.7	20.9
Others	17.8	19.6	18.4	17.4
Credit & categorized facilities	22.6	19.4	17.4	16.4
Total	100.0	100.0	100.0	100.0

Inflation and Prices

The rate of basic inflation continued at the end of the period (consumer price index excluding Qat) to continuously rise during the Strategy period from 4.5% in 2002 to 12.1% and 14.6% in the next two years respectively, to reach 20.2% at the end of 2005, which exceeded the Strategic target by 15.2%. At a time when rainfall had a positive effect on agricultural production and led to relative stability in its prices, the cancellation of subsidies on oil derivatives in July was basically conducive to the increase in basic



inflation, in addition to other factors such as imposing a sales tax, and the drop in the exchange rates of the Riyal. In fact, the increase in inflation poses a threat to macroeconomic stability and negatively impacts living standards, especially those of

the poor and low income categories, in addition to its adverse effect on the competitiveness of exports.

Foreign Sector

The Strategy included numerous measures aimed at promoting job opportunities especially for the poor through trade liberalization, integration into the regional and international economies and upgrading the management of foreign debts and reserves. Initial estimates indicate that surplus in the balance of payments will persist after having reached 584 million US Dollars, equivalent to 3.7% of GDP in 2005 compared to 532 million US Dollars or 3.9% of GDP in 2004. A huge current account surplus was recorded, reaching its highest level in the years of the Strategy with 1,224 million US Dollars, equivalent to 7.7% of GDP compared to 1.6% in the previous year. The balance of trade surplus increased to 14.2% of GDP compared to 5.9% in 2004. The balance of capital transfers managed to continue to realize a surplus despite its drop to 8.9% of GDP compared to 10.5% last year.

On the other hand, the deficit of the services and income accounts continued at a rate of 4.9% and 10.5% of GDP respectively. It is estimated that surplus of the capital and financial accounts in 2003 and 2004 that amounted to 1.2% and 1.9% of GDP will turn into a deficit equivalent to 1.4% of GDP in 2005 due to an increase in cost recovery by foreign oil companies, as well as an increase in principal installments and short-term oil facilities. Whereas the fiscal account recorded a deficit of 217 million US Dollars, direct investment flowed to the exterior at a rate of 56% from 754.5 million US Dollars in 2004 to 1,163.7 million US Dollars.

The surplus in the balance of payments and current account respectively conceals structural imbalances from which they suffer, especially the near total dependence on oil exports. The

government's share in oil exports was the highest ever at 3,115 million US Dollars in 2005, increasing at a rate of 37% compared to 23% in the previous year. The rise in the average price of exported oil from 36.6 US Dollars to 51.5 US Dollars per barrel

compensated for the small decrease in exports from 169,000 barrels per day to 166,000 barrels per day. The balance of payments surplus has positively impacted the foreign reserves of the Central Bank that reached 6,646 million US Dollars at the end of 2005, equivalent to 14-months imports cover. Furthermore, the outstanding balance of external public debt fell by 3% to reach 5,168 million US Dollars to fall back to 33% of GDP compared to 39% at the end of 2004. This was also assisted by the drop in exchange rates of the currencies of certain principal creditors, as well as the writing

Table 1-10: Balance of Payments (% of GDP)

Item	2000	2001	2002	2003	2004	2005
Current account:	13.6	6.7	4.1	1.5	1.6	7.7
Balance of trade	13.6	7.6	5.6	3.1	5.9	14.2
Balance of services	-6.4	-6.8	-6.3	-4.6	-5.0	-4.9
Balance of income	-8.1	-6.9	-7.6	-8.7	-9.8	-10.5
Balance of transfers	14.5	12.8	12.4	11.6	10.5	8.9
Capital account:	-2.4	1.0	-0.1	1.2	1.9	-1.4
Direct investments	0.1	1.4	0.9	0.0	1.0	0.0
Other investments	-2.5	-0.4	-1.1	1.1	0.8	0.0
Error & distraction	2.9	-1.1	1.6	0.2	0.4	-2.7
Balance of payments	14.2	6.5	5.6	2.8	3.9	3.7

off the debts owed to Abu Dhabi and Hungary. Finally, the ratio of servicing external debts to exports of goods and services fell by 5.7% compared to 6.7% in 2004.

Part 2

Evaluation of the Public Budget's Performance

The General Status of the Public Budget

The public budget derives its importance for constituting 30-35% of GDP, and from the diversity and wide range of public requirements, while the available financial resources are limited. These conditions require the efficiency of public expenditure by upgrading the system for managing public expenditures and boosting the mobilization of financial resources, especially non-petroleum resources that are characterized by their relative stability and sustainability. The developments that have impacted public expenditures and revenues during this year had different effects on the status of the public budget. Despite the considerable growth of public expenditure that reached 34.3%, the overall public budget deficit did not exceed 2.3% of GDP compared to 2.2% in 2004 and to an estimate of 3.7% in the Strategy for this year.³ This situation is mainly due to a rise in the self-financing capabilities of the public entities which grew by 38% compared to 21.6% the previous year, thus contributing to the coverage of the increase in public expenditures.

Table 1-11: Status of Public Budget and its Financing Sources (% of GDP)

Item	Level of Achievement				Strategy Targets		
	2002	2003	2004	*2005	2003	2004	2005
Surplus/deficit (overall)	0.48-	-4.15	2.16-	2.30-	-3.0	-4.0	3.7-
Surplus/deficit(net)	0.75-	4.08-	2.01-	1.32-	-	-	
Net foreign financing	0.27-	0.08	0.14	0.98	1.3	1.3	1.1
Net domestic financing	0.75	4.08	2.01	1.32	1.7	2.7	2.6

Source: Ministry of Finance, statistics on government finances bulletin, issue 22, 4th quarter-2005. * Actual initial data

The rise in net foreign financing of the overall public budget deficit from 3,663 million Riyals in 2004 to 29,602 million Riyals in 2005 led to a fall in the net deficit from 51,396 million Riyals to 40,093 million Riyals for the two years with a decrease of 21%. The increase in foreign financing contributed to raising its ratio of GDP from 0.14% to nearly 1%, thus approaching the Strategy's target of 1.1%. Simultaneously, the increase in foreign financing of the overall budget deficit also led to a decrease in net domestic financing of GDP from 2.01% to 1.23% in the same two years, which was below the expected 2.6% set in the Strategy. Yet this situation does not reflect a strengthening of the public budget's performance, as it conceals numerous imbalances that undermine it, including above all the excessive dependence on oil and gas revenues. Without oil export revenues the overall public budget deficit would have reached nearly 30% GDP compared with the actual 18% of GDP.

The rise in net foreign financing of the overall public budget deficit from 3,663 million Riyals in 2004 to 29,602 million Riyals in 2005 led to a fall in the net deficit from 51,396 million Riyals to 40,093 million Riyals for the two years with a decrease of 21%. The increase in foreign financing contributed to raising its ratio of GDP from 0.14% to nearly 1%, thus approaching the Strategy's target of 1.1%. Simultaneously, the increase in foreign financing of the overall budget deficit also led to a decrease in net domestic financing of GDP from 2.01% to 1.23% in the same two years, which was below the expected 2.6% set in the Strategy. Yet this situation does not reflect a strengthening of the public budget's performance, as it conceals numerous imbalances that undermine it, including above all the excessive dependence on oil and gas revenues. Without oil export revenues the overall public budget deficit would have reached nearly 30% GDP compared with the actual 18% of GDP.

³ Total deficit rose from 55,059 million riyal to 69,694 million riyal with an increase of 26%.

Development of Public Revenues

The positive development of oil revenues has contributed to raising overall self-financing capabilities through the generation of public revenues and increased their ratio of GDP from 32.2% in 2004 to 36.5% in 2005. Current revenues reached 36.4% of GDP, thereby exceeding the Strategy's goal by 7.7%.

Oil Revenues

Oil revenues have soared from 505.4 billion Riyals in 2004 to 842.2 billion Riyals in 2005, an increase of 66.7% compared to 23.9% in 2004. These developments were conducive to increasing their contribution to 76% of overall revenues and grants compared to 61.2% in 2004 and 27.8% of GDP, thereby considerably exceeding the Strategy's goal of 16.2%. Moreover, revenues from oil exports reached 16.6% of GDP compared to 7.3% forecasted by the Strategy. This is due to the continuous rise in oil prices and to measures taken by the government to remove subsidies in 2005. Revenues from oil sold in the domestic market grew by 138.1% compared to 42.4% in the previous year, thus leaping to 30% of total revenues and grants compared to 17% in the previous year.

Non Oil Revenues

Direct and indirect tax revenues have achieved a growth of 15.7% in 2005, which is similar to the 15.8% increase achieved in 2004. However, the ratio of these revenues to overall revenues and grants dropped from 22.7% to 19.5% during the two years as a result of the increase in the relative importance of oil revenues, and the decrease in the rate of growth of indirect taxes from 27.2% to 10.8% during the same period due to the amendment of the General Sales Tax (GST) law and the Customs Duties law. The relative importance of

Table 1-12: Public Revenues (% of GDP)

Item	Level of Achievement				Strategic Goals		
	2002	2003	2004	*2005	2003	2004	2005
Overall revenues & grants(1+2+3)	30.0	30.9	32.2	36.5	-	-	-
Overall own revenues (1+2)	29.6	30.5	31.4	36.5	-	-	-
1- Current revenues	29.6	30.4	31.4	36.4	31.4	29.7	28.7
a- Oil & gas revenues	18.0	18.8	19.8	27.8	20.3	17.9	16.2
Exported oil	14.0	14.1	14.1	16.6	11.3	9.2	7.3
Oil sold locally	3.8	4.5	5.5	10.9	-	-	-
Gas sales	0.3	0.2	0.2	0.3	-	-	-
b- Tax revenues	7.3	7.0	7.3	7.1	8.8	9.5	10.3
Direct taxes	3.3	3.1	3.1	3.2	3.6	3.8	3.9
Indirect taxes :	4.0	3.9	4.2	4.0	5.2	5.8	6.4
Customs	2.0	1.9	2.0	1.7	2.5	2.8	3.1
Other Current revenues different than taxes	4.3	4.6	4.3	1.6	2.3	2.3	2.3
2- Capital revenues	0.0	0.1	0.0	0.1	-	-	-
3- Grants	0.4	0.4	0.7	0.0	0.8	0.8	0.8
4- Receipts from credit principal and sale of capital shares	0.1	0.0	0.0	0.0	-	-	-
5- Loans	0.6	0.7	0.6	1.6	-	-	-
Total revenues	30.6	31.6	32.8	38.1	-	-	-

Source: Ministry of Finance, statistics on government finances bulletin, issue 22, 4th quarter-2005. * Actual initial data

Box 1-3: Medium-Term Financial Framework

There is an increasing importance to the formulation of a comprehensive strategy for mobilizing non petroleum resources the oil production is expected to fall as a result of the over exploitation of the active fields and the lack of new discoveries to maintain the current production levels. The financial medium-term framework of the Third Five-Year Plan for Development and Poverty Reduction 2006-2010 expects oil and gas revenues to fall continuously from 18.9% of GDP in 2006 to 9.7% only in 2010. This will lead to a decrease in self-revenues from 28% of GDP to 20% during the same period, and a nominal increase is expected in tax revenues from 7.4% to 8.6% of GDP.

indirect taxes also fell from 13.2% to 10.8% of total revenues and grants, thus aggravating the structural imbalances that affect socio-economic development and the efforts exerted to reduce poverty. Numerous studies indicate that the potential for revenues to be realized from taxes in Yemen varies between 13 and 14% of GDP, reflecting an unrealized potential of 5 to 7%. Therefore, it is necessary to formulate a comprehensive strategy to mobilize tax resources, especially because these revenues only constituted 7.1% of GDP in 2005, a ratio which is 3.3% below the Strategy's.

Customs revenues were relatively stable in 2005 due to the promulgation of Law n°41 for 2005 on customs duties which reduced the tiers of customs duties to three only: 5%, 10%, and 25%, and increased the goods subject to the 5% rate from 1,400 to 4,230 categories of items, representing 66% of a total of 6,323 categories of items, in accordance with amendments of the Coordinated System of 2002. Moreover, the number of exempted goods increased to 75 items compared to only 6 items in the old law. These measures have reduced tariffs from 12.6% to 10%.

The Yemeni government has initiated implementation procedures for the Great Arab Free Trade Zone by reducing tariffs by 16% annually on goods imported from the countries of the region. Customs revenues in 2005 were affected by measures like the collection of revenues from customs duties levied on cars, instruments and non-indexed equipment, and also the expansion in applying an automated system at main customs outlets, as well as upgrading the assessment of customs on imported goods by issuing general guidelines. All these measures have maintained customs revenues in 2005 at the same level as in 2004, although they have decreased in relative importance to total revenues from 6.2% in 2004 to 4.5% in 2005, and from 2.1% to 1.7% of GDP, which is below the Strategy's target of 3.1%. Increasing customs revenues will require stringent legal and organizational procedures that strive against trafficking in its direct and indirect forms. Furthermore, the proposed amendments of the customs law should incorporate guidelines for rationalizing tariff exemptions and other privileges such as temporary admission for cars, equipment and instruments. This might increase customs duties from 1% to 2.1% of GDP. Finally, current revenues other than taxes dropped by 65.8% which decreased in relative importance to 2.3% of total revenues compared to 4.3% in 2004 and 1.6% of GDP compared to the 2.3% rate targeted by the Strategy.

Public Expenditure

The PRS comprised numerous policies and measures aimed at curbing current public expenditure this year in order to provide additional resources for development programs and projects. The year 2005 witnessed a leap in public expenditure at a rate of 34.3% to reach 1,195,195 million Riyals, thereby exceeding the draft public budget estimate by 42%, because an additional line of credit of 451.2 billion Riyals was, equivalent to 53% of the draft budget's total estimate. Consequently, total public expenditures increased to 39.4% of GDP, exceeding the Strategy's goal by 6.2%.

Table 1-13: Public Expenditure (% of GDP)

Item	Level of Achievement				Strategy Goal		
	2002	2003	2004	*2005	2003	2004	2005
First :Current expenditure:	23.3	24.2	24.5	28.5	28.2	27.1	25.4
1- Salaries & wages	10.0	9.3	8.9	8.8	9	9.2	9.3
2- Goods & services expenditure	3.4	3.4	3.2	2.8	2.8	2.9	2.9
3- Maintenance	0.6	0.6	0.3	0.4	0.4	0.4	0.4
4- Interest payment	1.8	1.7	2.1	1.7	2.2	2.4	2.6
5-Current transfers & subsidies:	6.9	8.5	9.2	4.9	6	4.9	3.6
a- Subsidies:	3.0	5.1	6.0	1.7	2.2	1.2	0.1
Electricity subsidy	0.2	0.3	0.2	0.2	-	-	-
Oil derivatives subsidy	2.8	4.8	5.7	1.5	-	-	-
b- Current transfers	3.9	3.5	3.3	3.3	3.9	3.8	3.5
6- Other current expenditures	0.6	0.6	0.7	0.6			
Second : Capital & investment expenditure	5.9	9.1	8.3	8.4	7	7.4	7.8
Third :Government credit & participation in equity capital	1.3	1.8	1.6	1.9	-	-	-
Fourth : Credit settlement	0.8	0.6	0.6	0.6	-	-	-
Total expenditure	31.4	35.7	34.9	39.4	35.2	34.5	33.2

Ministry of Finance, Financial government statistics bulletin, issue no.22, 4th quarter-2005. *Actual initial data

Current Expenditure

The considerable growth in current expenditure that reached 38.3% compared to 18.7% the previous year was conducive to an increase in its relative importance from 70.2% of public expenditure in 2004 to 72.3% in 2005, and from 24.5% to 28.5% of GDP, thereby exceeding the Strategy's goal by 3.1%. The increase in salaries and wages that grew by 31.7% is one of the main reasons for the rise in current expenditure, although the relative importance of salaries and wages as a percentage of total public expenditure fell from 25.5% in 2004 to 23.5% in 2005, while their ratio of GDP was almost stable at 8.8% in 2005 compared to 8.9% in 2004, while stands below the Strategy's goal of 9.3%. The high increase in expenditure on salaries and wages is due to the issuance of Law n°43 for 2005 on the jobs, salaries and wages system that was adopted as part of the package of financial, economic and administrative measures. This law raised the minimum level of salaries and wages to 20,000 Riyals, in addition to the impact of the increase in the salaries and wages of government employees in general. In fact, this measure aimed at reducing the effect of removing subsidies for oil derivatives.

Although interest payments fell from 42.2% to 31%, and current expenditure decreased from 25.8% to 7.7%, expenditure on interest payments increased from 1.7% of GDP in 2004 to 2.6% in 2005 as projected by the Strategy. Expenditure on goods and services rose from 10.2% to 13.3% in the above-mentioned two years, and their ratio of GDP stabilized at 3.1% compared to 2.9% targeted by the Strategy. Expenditure on current transfers and subsidies increased sharply from 26.9% to 63.2%, and leaped to 9.2% of GDP, thereby exceeding the Strategy goal by 5.6%. Finally, expenditure on maintenance grew by 91.9% compared to a negative growth of 33.4% in 2004, and reached 0.5% of GDP exceeding the goal set in the Strategy by 0.4%.

Developmental and Social Expenditure

The capital and investment expenditure increased by 21.6% in 2005 compared to 6.1% in 2004 although its' relative importance dropped to 21.4% of total expenditure compared to 23.7% the previous year. Its ratio of GDP rose to 8.4% compared to 8.3% in the previous year, and exceeded the Strategy goal estimated at 7.8%. Social and communal expenditure on health, education and social protection realized the highest growth during the years of the Strategy. It reached 24% compared with an average of 11.1% during 2003 and 2004, which contributed to raising its relative importance to 27.1% of overall public expenditure compared to an average of 21% during the two previous years. The rate of this type of expenditure to GDP remained unchanged at 7.5% compared with an average of 7.4% during the two previous years, although it was 6.3% less by 6.3% less the targeted objective of 13.8%. This reflects a decline in the level of expenditure in the first place and underlines the necessity to raise it considerably in order to attain the targeted ratios.

The expenditure on the health sector dropped this year with a negative growth of 2.3% compared to a positive growth of 53.1% in the previous year. In contrast, expenditure on education rose considerably and stood at 20.2% compared with 10.8% in the previous year. These developments did not largely affect their respective ratio of GDP, as health sector expenditure fell from 1.8% to 1.5% compared to the targeted rate of 2.2%, whereas expenditures on education increased from 5.8% to 5.9%, which is 3.7% less than the Strategy's goal.

These developments reflect the decline in the institutional capability of the health sector and its weak management on the one hand, and the wide scope of its services and their diversity on the other hand. Hence, it is necessary to increase allocations for social and communal expenditures by upgrading the institutional capacities of

the health and education sectors, as well as developing the ways and means for the selection and implementation of projects and programs, in addition to improving the channeling of available capabilities and resources. These measures are applied to

Table 1-14: Public Expenditure According to Job Classification (%of GDP)

Item	Achievement				Strategy Goals		
	2002	2003	2004	*2005	2003	2004	2005
Public services	6.4	8.5	7.3	7.0	-	-	-
Defense	6.8	6.3	5.3	4.2	6.5	6.3	6
Public order & safety	2.3	2.5	2.6	2.2	-	-	-
Economic affairs	4.8	6.7	7.5	3.2	-	-	-
Protection of environment	0.0	0.6	0.6	0.7	-	-	-
Housing and local community affairs	1.8	2.1	2.7	1.7	-	-	-
Recreation, culture & religion	0.5	0.6	0.5	0.6	-	-	-
Community & social services:	7.9	7.6	7.2	7.5	12.1	12.8	13.8
Health	1.3	1.4	1.8	1.5	1.9	2.1	2.2
Education	6.5	6.1	5.8	5.9	9.1	9.4	9.6
Social protection	0.1	0.1	0.1	0.1	-	-	-

Source: Ministry of Finance, Financial government statistics bulletin, Issue no.22, 4th quarter 2005, * Estimated data

social protection expenditure whose growth rates fluctuated from one year to another but maintained its ratio to GDP at almost 0.1% during the three years of the Strategy.

In the light of the government's continuing expenditure on social sectors through the funds and projects of the Social Safety Net (SSN), in particular the SFD and the Public Works Project (PWP), the improvement of efficiency and efficacy of spending of these funds requires that coordination and integration mechanisms be supported by programs and projects of the central government relevant bodies on the one hand, and programs and projects of the local authority on the other. The SFD has implemented 953 projects during the year at an estimated cost of 87.4 million US Dollars, whereas the Public Works Project implemented 250 projects at an estimated cost of 24.7 million US Dollars.

Domestic Public Debt

The domestic public debt rose by 15% in 2005 to reach 396 billion Riyals. However, its ratio to GDP stood firmly at 13%. The increase is basically due to the issuance of treasury bonds still considered as the main instrument for obtaining local finance, because its share of overall domestic public debt increased to 82% in 2005 compared to 80% in 2004. Accordingly, the value of all operations to redeem stocks or government bonds sold to the Yemeni Bank for Building and Reconstruction remained steady at 65 billion Riyals and 2.3 billion riyals respectively. This ongoing rise of domestic public debt during the three years of the Strategy is explained by the continuous increase in domestic liquidity and the weak capacity of the economy to attract and employ financial resources in more productive investment fields. Hence, monetary authorities seek to absorb this liquidity because of its adverse effects on inflation and the exchange rate. In the light of an increase in government deposits of 47 billion Riyals in 2005, net domestic public debt fell to 180 billion Riyals, equivalent to 6% of GDP and 15% of the overall public debt.

Financial Decentralization

The success of decentralization measures and the local authority's achievement of objectives and goals set by the local authority law and its executive regulations are basically linked to the local authority's capability to mobilize its own financial resources, namely local and joint revenues. Statistics indicate the growth of the overall self-financing resources of the local authority that are directed to finance development projects at a rate of 12%. However, these resources are much lower than the available potential and at the same time they do not meet the needs of local communities in terms of basic development projects.

Table 1-15: Financial Resources of Local Authority (million Riyals)

Item	2002	2003	2004	**2005
Local revenues	4,121	5,288	5,838	7,364
Joint revenues	5,325	4,540	6,554	7,277
Total own resources	9,446	9,828	12,392	14,641
Joint public resources	398	1,004	3,227	2,095
Capital central subsidy	3,851	3,851	3,850	4,000
Total resources of local authority*	13,695	14,683	19,469	20,736

Excluding current central subsidy and diverted surplus *Estimated data

Current expenditure continued to account for the largest portion of the local authority's expenditure, and its share rose to 88.3% in 2005 with an increase of 2.1% over the previous year. This share underlines the continuous decline in capital and investment expenditure compared to the numerous development needs of local communities, which requires that the government take effective measures including increasing the annual central capital subsidy to empower the local authority's organs to assume their developmental role.

The Ministry of Finance continued to strengthen financial decentralization measures by creating and preparing 36 accounting units, and providing cadres at the district level during the year. The total number of units reached 287 by the end of 2005, which already represents 88% of the accounting units expected to be established. In spite of the fact that the law on the financial resources of local authorities and the amendments of the law of Zakat (the Islamic poor-dues) were both prepared by the end of 2003, the Cabinet did not study and consider them as was expected, so that both could be presented to the House of Representatives during 2004.

million

Table 1-16: Financial Expenditure of Local Authority (Riyals)

Item	2002	2003	2004	*2005
Current expenditures	107,150	112,280	127,798	157,777
% of total expenditures of local authority	95.7	88.4	86.2	88.3
Capital & investment expenditures	4,809	14,629	18,694	20,900
% of total expenditures of local authority	4.3	11.5	12.6	11.7
Total	111,959	126,963	148,309	178,677

* Actual initial data

Table 1-17: Development of Principle Indicators for 2005

Goal	Indicator	Basic Data 2000	Planned 2005	Actual 2005
Increase of real GDP	Average growth of real GDP	5.1	5.4	4.1
Increase of non petroleum real GDP	Average growth of non petroleum real GDP	4.7	7.0	6.1
Increase of real GDP per capita	Average real GDP growth/ population	1.6	2.4	2.1

Chapter Two

Human Resources Development and Social Protection

Part 1

Human Resources Development

The Improvement of the quality of life and the enhancement of human capital according to the policies of the PRS require focusing on improving the health of the population, raising educational standards, affording appropriate social care, in addition to upgrading infrastructure and protecting the environment to ensure its sustainability. These efforts would help raise the incomes of the poor, as well as improve their living conditions. This chapter will provide an overview of the objectives realized in the fields of human resources and social protection, infrastructure, the environment and water resources. Success achieved in any of these areas is to a large extent linked to a number of factors related to the policies adopted and the measures taken, as well as available financial resources. Moreover, it also depends on the integration of basic social services such as the expansion of education and its dissemination throughout the country, the increase in the coverage of health services and facilitating access to these services for the poor. Additional factors include achievements realized in roads, especially in rural areas, water and electricity projects, modern communications systems and others.

Population and Public Health

Status of the Population

The development process in Yemen, including the efforts exerted to reduce poverty, is confronted by a number of social and economic challenges. The fast growing rate of the population and the rise in rural migration to urban areas are among these challenges. If the population continues to grow at this rate, it will surely double within 20 years. This will in turn multiply the number of job seekers, as well as those requiring educational and health services, which exerts pressure on the public budget. Moreover, increasing water consumption will greatly reduce available underground water.

Rapid population growth is closely linked to the problem of poverty, as it undermines efforts made to alleviate it. It also reflects negatively on the average citizen's standards of living. The PRS has set as a main goal the **control of population growth and the reduction of the flow of rural migration into cities**.

The results of the population, household and houses census for 2004 indicate a drop in the rate of population growth to 3%, whereas the national survey on family health for 2003 shows a decrease in the total fertility of women to 6.2 children per

Box 2-1: Structural Change in Population Age Pattern

Results of the Population, Household and Houses Census of 2004 indicated a structural change in the population age patterns compared to 1994. The age group 0-14 for both male and female fell from 50.3% in 1994 to 45.3% in 2004. The age group 0-5 dropped from 20.2% to 18.2% during the same period. The age group 6-14 for both male and female also dropped from 30.1% to 27.1%. While the age group 15-59 increased from 44.2% to 49.6%.

woman. The average number of living infants per family has declined slightly to 4.8 due to the rise in the average age of the first marriage to 23.3 years in 2003. The population awareness, productive health and family planning programs contributed to the progress achieved. Women who benefited from family planning reached 194,976 women in 2005 compared to 185,633 women in 2004. The population, household and houses census also showed a structural change in the age group distribution of the population with the age group of adolescents and youth (15-24) increasing from 17% to 21.9% of the total population during that period. However, the age group 25-59 remained almost unchanged from 27.2% to 27.6%. This development exerts more pressure on the supply side of the labor market and raises the rate of participation. There is also a need to chart the path of the practical life for youth in this important age, during which the personality of the person is shaped. This can be achieved by activating programs and availing opportunities, particularly in the fields of technical education and vocational training (TEVT), to enhance the skills and capabilities that meet labor market requirements.

The control of population growth was given top priority, since it is above all considered a cultural problem and an issue of societal awareness. Therefore, it became necessary to focus on raising people's awareness of the threat it represents through the media, in addition to using population communication and education techniques. The National Strategy for Population Information, Education and Communication was formulated to unify visions and priorities, and enhance coordination and integration between different parties through the media. In fact, 1,527 minutes were produced and broadcasted to cover seminars, programs, talk shows and awareness campaigns on the population issue in the first and second television channels in 2005. Furthermore, 3,393 minutes on the same issue were produced and broadcasted by the central and local radios. Weekly pages in official and national newspapers were published on the same subject, in addition to a weekly page in the 26th of September and Al-Horass (the guards) newspapers, which are directed to the armed and security forces.

Awareness sessions on population issues and PRS concepts were held at the central and local levels in the governorates of Mahweet, Sa'adah, Dhamar and Hadhramout aimed at expanding population activities in the governorates and stimulating the role of the population activities in the coordination committees. Moreover, awareness seminars were organized for legislative and executive authorities on population issues and these parties role in overcoming this problem. The General Secretariat of the National Population Council continued to implement the National Strategy for Population Information, Education and Communication. Coordination and perseverance were pursued with the Armed Forces' Morale Division and the Public Relations Department of the Public Security to carry out internal awareness activities dealing with population problems. Numerous policy and coordination activities were implemented at the central and local level, such as drawing up an executive plan to integrate population concepts into public education and university curricula and to follow up on this in line with the national population policy's trends and in harmony

with the PRS strategies and policies and the MDGs. A plan was drawn up to mitigate certain principal population issues such as human fertility, maternal and infant mortality, basic education, gender justice and equity, the empowerment of women, children and youth, and the prevention and control of HIV/AIDS and others.

Health Care and Improving People’s Health

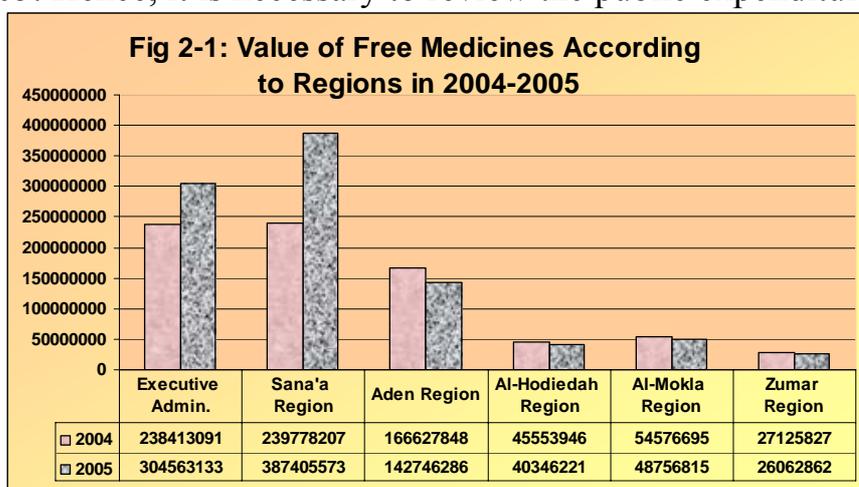
Poverty undermines health because a poor family has no access to good health care and/or because family members involve themselves in harmful personal practices due to their poverty. Therefore, the PRS gave considerable importance to health care, especially primary health care, as it is considered as the right of every citizen and a basic form of societal support, as well as an important means to reduce poverty. This service is based on the needs of the population and not on their ability to cover its expenses. In 2005 111 health units were opened, as well as 14 health centers and 33 facilities to house doctors, laboratories and health clinics. Although health units and centers are distributed in rural areas where most of the poor live, yet the scattering of the population and the length of the distances that separate communities prevent some the poor from accessing these services.

Box 2-2: The Evaluation by the Poor of Health Services

Although there are primary health units and centers, yet these facilities are either in general closed or are short of medicines and medical personnel. Moreover, certain government health facilities are transformed into private sector units, managed by the medical personnel, due to the absence of supervision and the lack of a monitoring system in the administrative health system and the weak role of local councils in supervising health services.

Source: The study "voices of the poor" 2005

Public expenditure on health has increased annually from 1.4% of GDP in 2002, 1.8% in 2003, and 1.9% in 2004 compared to 2.1% in the plan. Although these figures are low in comparison with the internationally recommended rate or with the rates recorded by countries with comparable economic and social conditions, the rate dropped again to 2.5% in 2005. Hence, it is necessary to review the public expenditure priorities and allocate a higher amount to health, and channel most of it to primary health care. The Cabinet has stressed the necessity to exempt poor families from health services’ fees by issuing social care cards. Moreover, concerned parties should follow up on the implementation of this



decision. NGOs should also be motivated to provide health services free of charge to the poor.

The cost of medicines distributed free of charge by the National Medicinal Supply Program for providing medicine (formerly the Medicine Fund) reached almost 950 million Riyals in 2005 compared to 700 million Riyals in 2004. This increase came as the Ministry of Health redressed conditions at the Fund by transforming it into a medicinal supply program, and the program has continued to receive subsidies from donors. Moreover, the national inventory of medicines was updated in order to provide safe medicines that would be affordable to the citizen.

Productive health services are provided at 1,273 public health facilities. The scope of the food program was expanded through community participation in 16 governorates, supplemented with the food program for pregnant mothers, children, and tuberculosis and leprosy cases that was provided to 47 health centers in targeted areas. Cabinet decisions were followed up on the encouragement and protection of breast feeding, the addition of iodine to salt, and Vitamins A and B to oil. Iron and folic acid were added to enrich flour by the main national mills. In the same context, 3,949 tons of wheat, oil and Soya were distributed as a mixture to breast-feeding mothers, pregnant women and tuberculosis and leprosy cases. The number of beneficiaries totaled 15,832.

A marked improvement was achieved in immunizing children against the six diseases, whereby the rate of total routine immunization reached 80% in 2005 compared to 66.5% in 2004. The rate of polio vaccination stood at 96% throughout the seven rounds of the national campaign that was carried out from house to house. Vaccination against measles rose from 76% in 2004 to 80% in 2005. The third round of the immunization campaign against Tetanus of women in the age of fertility was implemented in four governorates including 14 districts, where 154,133 women were inoculated. Moreover, governorate supervisors and health workers in the Republic were trained on using the Penta vaccines. 2,833 trainees benefited from this exercise.

Box 2-3: The Evaluation by the Poor of the Immunization Services

All poor women and men in all communities under study expressed their satisfaction of the immunization campaigns that reached their doorstep. These campaigns were very successful from their point of view because it saved them from walking to the health unit and helped in bolstering confidence in the extended service. Information campaigns played a decisive role in motivating communities to immunize their children.

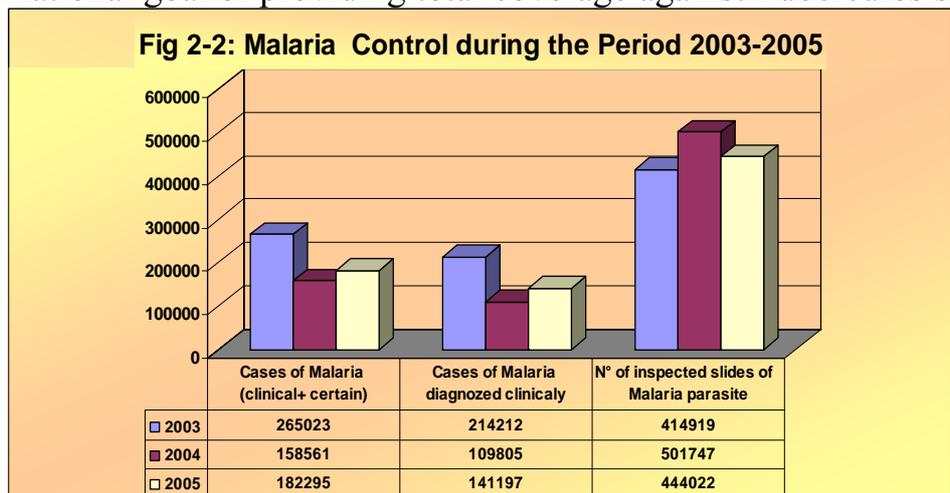
Source: The study "voices of the poor" 2005

Yemen has realized considerable achievements in controlling endemic and contagious diseases, which are partly responsible for the incidence of poverty. Malaria cases fell from nearly 25.5% in 2003 to only 9.6% in 2005. This success is due to intensive societal health awareness programs, the mobilization and coordination of the efforts of concerned parties, as well as accelerated prevention activities in the breeding grounds. 48,438 mosquito nets were distributed, 56,245 houses were sprayed with insecticides

and 210,235 rooms with long effect insecticides. Medication was provided free of charge in order to eradicate this disease. The government, in partnership with donors and in cooperation with local and international NGOs, continued to combat Bilharzia by covering 63 provinces in 2005 compared to 56 in 2004. Also, Yemen almost reached the international goal of providing total coverage against Tuberculosis, with the rate of population coverage maintained at 98% until the end of 2005 in 293 districts. The number of health units that extended services to Tuberculosis cases increased from 722 units in 2004 to 998 units in 2005.

Table 2-1:Controlling Bilharzia

Year	No. of provinces	No. of schools	No. of students	No. of those examined	No. of patients
2003	36	178	72,615	17,926	39,209
2004	56	321	129,799	18,892	66,762
2005	63	1,156	324,745	40,166	172,932



The government gave the AIDS pandemic its utmost concern despite the limited number of cases discovered. After having planned the National Strategy to Prevent and Combat AIDS in 2003 and its implementation in 2004, efforts were made in 2005 to prepare specific guidelines related to prevention policies in line with international and local practices. Legislation and policies were revised to reflect the government’s commitment to conform to international legislation and policies. The Ministry of Health and Population adopted measures to facilitate the purchase of AIDS medicines and distribute them, and to monitor and follow up on their approval by the Ministry itself. Furthermore, the Ministry increased allocations for monitoring, prevention and treatment. Criteria and equipment were provided to ensure the safety and quality of blood. Health workers and coordinators were trained on the manual on home care for AIDS cases, and on the manual for combating the virus contagion in health utilities, and also on raising the awareness of the public in general such as preachers at mosques, hotel employees, hairdressers for males and females, garbage collectors...etc. However, there lack of reliable information on discovered cases persists due to the weak system of control, monitoring, and reporting.

Education and Training

Education is one of the pillars of the National Poverty Reduction Strategy. In fact, upgrading education and training are the major goals of development. The Strategy focused on raising enrolment levels by providing education services to the poor in all parts of Yemen, on combating illiteracy and on narrowing gender disparity.

Combating Illiteracy and Reducing Poverty

The government increased literacy and adult education centers and classes during 2005 to reach 6,022 classes in the three stages of education: first, second basic, and relay of which 5,499 classes are for females. Total enrolment rose to 124,875 students of whom 92% are females. Women's training centers that provide these services reached 388 in addition to 55 centers for training basic skills, with 8,564 male and female students. These figures are still limited compared with the magnitude of the problem which will persist unless it is radically addressed.

Box: 2-4: Role of the Private and Civil Sectors

The number of basic and secondary schools owned by both private and civil sectors until end of 2005 was almost 445 schools, holding nearly 130,000 male and female students. Teachers working in these schools are estimated at almost 9,700 male and female teachers.

Basic Education

The government established 1,340 new schools in 2005 compared to 1,273 schools in 2004. Besides, 4,591 classes were built and 633 classes were added to existing schools, 805 were repaired, 320 walls were built around schools, 1,255 toilets were built mostly in girls' schools. The countryside acquired more than two-thirds of the new buildings, classes and school facilities. Enrolment in basic education rose to 77.2% for both sexes compared to 68.9% in 2004, and 64.2% for girls compared to 53.3% during the same period.⁴ The distribution of foodstuffs reached 18,498 tons of wheat and 580 tons of oil to basic education schools in rural areas covering 141,110 male and female students and was conducive to promoting enrolment and curbing dropouts.

Box 2-5: Factors to Support Girls' Education from the Point of View of the Poor

- To afford a supportive environment for the education of girls (classes and schools specifically for girls, to protect their privacy, or to implement the two shift system)
- To rehabilitate and train as much as possible rural female teachers to ensure their carrier stability.
- To enhance school curricula by vocational training (food industries, crafts, etc...).
- To exempt poor girls from school fees.
- To continue granting incentives in poor communities, such as school snacks, school stationary and others.
- To establish parents councils and activate their role so that they may better participate in promoting awareness of the importance of education.
- To promote other alternative educational means such as attracting girl dropouts to literacy classes as their learning period is shorter, to accommodate school hours to girls in rural areas and to ensure the quality and the excellence of curricula in these classes.

Expansion in building schools came as a result of the increase of the share of public expenditure on education to reach 177,255 billion Riyals, equivalent to 5.6% of GDP and 21.23% of the public budget for 2005. These allocations enabled the Ministry of Education to direct the larger portion of it to expand basic learning and upgrade its

⁴ Enrollment indicators greatly vary due to the differences in the population for the equivalent age group and specially after publishing the results of the Population, Household and Houses General Census of 2004.

performance by continuing to follow the Basic Education Strategy, which included goals and policies to raise enrolment levels and narrow geographic gaps and gender disparities. Developing education and upgrading its quality depends on those engaged in the education process such as educators and managers, on available curricula, as well as on providing diverse educational methods. In this context, the Ministry of Education continued to implement the education plan it had endorsed in 2004 which includes the distribution of benches, desks, laboratories and educational material. Thus, in 2005 most schools received maps, glass and wooden school requirements, desks and students' benches in addition to the distribution of 427,679 school chairs, 388 school radio systems, 268 laboratories, 647 educational tools and 14 cameras.

An increase was achieved in the number of teachers who were employed by creating 8,457 jobs in 2005 including 6,349 for graduates from education faculties, especially those in rural areas. The share of female teachers stood at 1,877 jobs. Moreover, 2056 male and female teachers were replaced according to the program for replacement by Yemeni personnel, 1,010 were employed by contracts including 154 females. Furthermore, the distribution of teachers at the school level was completed.

Training and vocational formation play an important role in improving schooling performance and enhancing education. Thus, 63,609 male and female teachers were trained compared to 49,232 in the previous year. Teachers of the first to the third grade were given top priority in training at a rate of 46%, followed by the teachers of the fourth to the ninth grade with 19%, headmasters and their deputies 18%, and headmasters and their deputies in pivotal schools 17%. A program for training of trainers was also carried out within the context of pivotal schools for male and female trainees. Training activity continued by implementing training sessions for 2,743 Mathematics teachers and 3,460 Science teachers at the governorate center level, as well as a training program for 300 English teachers.

Technical Education and Vocational Training

Technical education and vocational training (TEVT) play a fundamental role in promoting society, providing its needs for expertise and technical specialists, creating income generating activities and increasing self employment opportunities. The Strategy aims at increasing the number of those enrolled in TEVT institutes, expanding and upgrading training institutes according to labor market needs, and introducing new specializations suitable for women in order to open new job opportunities for them. Twelve completed projects were handed over at the end of 2005 at a total cost of 265.9 million Riyals, which include the Civil Engineering Institute at the governorate of Aden, buildings and halls in the Vocational Training Center of Dhamar, and 8 fences with gates for institutes in different governorates. A well was drilled for the Agricultural Vocational Institute of Ibb, and electric works were carried out in the Vocational Center of Marib. Also 11 institutes were handed over at a preliminary cost of 503.6 million Riyals. Work continued in 23 projects costing 312.3 million Riyals in addition to preparing the feasibility studies and designs

for 21 projects. As for projects financed by loans, a building for the National Hotel and Tourism Institute was completed at a cost of 1.7 million Euros, 15% of the Technical Institute in Sana'a City was completed, in addition to a contract signed to build 18 additional training institutes.

The Ministry introduced new educational systems such as modern technical standards in vocational institutes, and it has pursued its continuous education programs in order to draw the highest possible numbers for enrollment; 3,433 male and female students were admitted, in addition to alternative education attracting 1,813 male and female

Table 2-2: Enrollment in Training Institutions and Social Sciences Faculties during 2005/06

S.N.	Governorate	Training institutions 2 year system	Training institutions 3 year system	Technical institutes 2 year system	Social sciences faculties	Total
1	Ibb	463	58	153	0	674
2	Abyan	357	134	51	0	542
3	Sana'a City	1,423	1,143	742	0	3,308
4	Taiz	1,083	617	2,401	0	4,101
5	Hajjah	142	62	386	527	1,117
6	Al-Hodiedah	669	372	0	0	1,041
7	Hadhramout/Al-Mukalla	198	240	442	0	880
8	Hadhramout/ Sayoun	316	51	0	149	516
9	Dhamar	350	177	429	0	956
10	Raimah	150	0	0	0	104
11	Sana'a	0	0	0	1,422	1,422
12	Aden	758	446	1,010	827	3,036
13	Lahaj	150	0	46	0	196
14	Marib	50	0	0	0	50
15	Al Mahweet	92	0	179	0	271
16	Amran	197	38	0	0	235
	Total	6,408	3,338	5,839	2,925	18,510

students. These programs contribute to providing self-financing resources that ensure sustainability and evolution in a bid to achieve targeted goals. The Ministry supervises 25 industrial vocational training institutes, 11 technical training institutions in the industrial, trade, maritime, agricultural, hotels and tourism fields, in addition to 21 vocational institutes and 4 social sciences faculties with a total capacity of 18,449 male and female students.

Existing training institutions are incapable of admitting all those interested in joining this type of education. The applicants for the two- year technical system were 7,173 male and female students of whom only 3395 were accepted. The number of applicants for the two-year vocational system was 6,291 and only 3,139 male and female students were accepted. Applicants to the three year system reached 1,362 and only 761 male and female students were accepted. The number of applicants for social sciences faculties rose to 4,672 of whom 1,496 male and female students were accepted. The Ministry coordinates with the private sector and employers to take appropriate decisions and measures in order to realize the objective of upgrading technical and vocational institutes and centers, and to increase their capacity to meet the needs of the labor market. The private sector participates in planning and analyzing school curricula, adding to them the practical and theoretical aspects (DICOM system). The private sector also participates in evaluating the results of TEVT so that they would meet the needs of the labor market to ensure that graduates have job

opportunities. The private sector also participates in the TEVT local councils that are mandated to formulate practical policies for the sector.

Targeting Poor Categories

TEVT realize direct social objectives and target the unemployed, the low income groups and those covered by the law of social care. Although there are problems facing the sector that hinder increasing the capacity of its institutions and their expansion into targeted poor areas and categories, regular and continuous education programs were implemented in 14 educational institutions in rural areas, in an institute in the central prison, in an institute for training women and in another for the handicapped. Furthermore, cooperative training programs comprising 24 professions were carried out; 1,788 male students participated and were distributed to 451 productive, industrial, administrative and agricultural locations. Additionally, 3,433 beneficiaries were trained including 1,313 women on diverse specializations in short training sessions for teaching skills to provide appropriate jobs that will deliver them from penury.

Higher Education

Higher education is being considerably upgraded; awareness of its importance has risen from being a social demand that preoccupies families at all levels. In fact, the demand for higher and university education is growing in tandem with the increase of the population and youth at the age for high education. The outputs of higher education contribute to achieving developmental and poverty reduction objectives, as well as to the developmental activities of society, especially those linked with labor market requirements.

Expansion in public universities concentrates on establishing more applied and scientific faculties such as Engineering and other specialized faculties. The law on civil universities issued in 2003 helped in directing private and civil universities to scientific and applied faculties, and also to introduce specializations that would respond to the needs of the market for skilled labor. In this regard, the Faculty of Education in Hadhramout University was transformed to a consecutive system with two faculties for sciences and arts. The Presidential decree n°199 for 2005 was issued for the establishment of

Box 2-6: Higher Education and Scientific Research Strategy

The Higher Education and Scientific Research Strategy adopts a number of policies and measures to place the higher education in its rightful position and empowers it to play its full role in driving forth the process of economic, social and cultural development through providing education that allows graduates to enter the labor market with suitable qualifications. Moreover, the strategy aims at upgrading curricula and programs so as to keep pace with the requirements of our time and cover the needs of the society. It also focuses on undertaking studies and researches that serve the society, giving priority to maximize the benefit from the sector's financial and human resources. This is achieved by developing and modernizing all aspects of education and research, to increase the capabilities of the staff and to introduce modern technological methods to upgrade libraries and laboratories.

Amran University limiting it only to scientific and specific specializations. In addition, the Yemeni-Jordanian University project is underway as a partnership between the private sectors in both countries which will include specific scientific specializations.

The drawing up of the Strategy for Higher Education and Scientific Research was completed. It aims at promoting the standard of education and concentrates on efficiency, skills and technological prowess. The Ministry of Higher Education and Scientific Research has set criteria for organizing student missions to go abroad and confined them to rare specializations that are not available in the country in order to save financial allocations and direct them to consolidate other policies, and also to fix the number of scholarships abroad and grant a ratio of them to outstanding students from poor families. It was ascertained by means of enrollment policies that the rate of female students reached 27.5% in 2005, thus exceeding the planned target of 27%. Entrants to public universities stood at 170,630 male and female students of whom 47,831 were females, compared to 161,884 male and female students of whom 44,501 were females in 2004.

Part 2

Social Protection

The government adopted the Social Safety Net Program (SSNP) as an integrated package for poverty reduction that would increase the productivity of local communities and pockets of poverty in particular. It would also contribute to improving living standards for the inhabitants of poor areas by implementing development projects and activities, foremost infrastructure, besides providing social protection, and the continued emphasis on the importance of qualitative investment in human resources and capacity building through education and health. The SSN activities also include integrated interventions and working with people with special needs. There were 1,203 projects implemented throughout all the governorates at a total cost of 112.12 million US Dollars in 2005.

Targeting Poor Areas and Categories

Monetary aid provided by the SWF reached about 746,000 cases in 2005, an increase of 146,000 compared to the previous year. The distribution of cases among the governorates depends on a mechanism based on the various indicators of poverty. Improvement of the targeting process is achieved by laying down more stringent criteria, and distributing aid through the post offices which covered over 80% of beneficiaries in 2005. However, the government, in cooperation with the EU is still reassessing the Fund's working mechanisms with regard to the targeting process and also the sums allocated for aid to beneficiaries, even the cases covered and the possibility of diverting some of them to alternative mechanisms.

Work continued according to the mechanism of the partnership established between

with the SFD, the Productive Families Program and the Vocational Training Fund in order to provide training for targeted families. Beneficiaries of the training and vocational formation reached approximately 4,000 in the governorates of Taiz, Ibb, Lahaj, Marib, and Sana'a City, covering various fields such as leather products, sewing, embroidery, confectionaries, handicrafts and first aid. The network's programs continued to train and provide vocational formation for 4,395 families benefiting from social care under the auspices of the Productive Families National Program in 2005 through 62 program centers. The aim of this mechanism is to transform those families into productive families, supported with the extension of microcredit to families that have received training in order to enable them to set up small projects and create productive jobs. The programs of the other network supported projects with small and microcredit, which are considered as the most successful projects for combating poverty. Total credits provided by the Fund for Financing Small Industries and Projects reached 1,142 of which 247 were for women, at a total cost of 589 million Riyals in 2005, providing about 8,820 permanent jobs of which 826 were for women. Moreover, 43 projects were implemented through the Unit for the Development of Small and Micro Projects which is affiliated with the SFD, costing 4 million US Dollars. Monitoring of the establishment of Al-Amal (hope) Bank for Small and Microcredit is ongoing, as well as the study of various modes of operation to ensure that the Bank will operate in accordance with the best international practices.

The SSN programs and projects were able to reach most governorates and areas, targeting the poor. The impact evaluation studies reveal the efficacy of these projects in targeting the more needy areas according to the concept of development in partnership with local communities by designing the programs and interventions that are appropriate for the problems faced by the targeted communities, and the social targeting of particular categories, such as people with special needs and marginalized groups.

Social protection was not confined to the components of the modern SSN, as work continued through the traditional mechanisms by expanding comprehensive social care, and care for the marginalized groups, the less fortunate and those with special needs. A variety of 55 projects were implemented in 2005 with 2.7 million US Dollars, which included training and institutional support for societies and institutions providing services for people with special needs, projects for supporting educational activities focusing on inclusive education for the handicapped and the concept of comprehensive pedagogy, projects for the protection and improvement of housing conditions, and projects for the consolidation of health services including mental health. Interventions included improvement of the conditions of women and women prisoners, and training teachers on methods for dealing with deaf and dumb children, as work in the field of people with special needs received special attention.

Social Insurance

The social insurance authorities, corporations and funds are concerned with protecting the standards of living of the persons insured, especially those who are unable to work or to earn a living. They are also concerned with alleviating the burdens of livelihood after retirement, injury, senility etc... Insurance systems also protect employers, especially those with small businesses, against financial difficulties when their employees demand their retirement bonuses and other legal dues.

Table 2-3: Trends of Insurance Indicators

Item	General Insurance Authority		General Insurance Corporation	
	2004	2005	2004	2005
Persons insured	474,879	498,261	71,103	81,091
Retirement beneficiaries	59,932	64,757	2,260	2,488
Retirement disbursement (in million riyal)	8,600	10,300	2,04.5	3,18.5
Subscriptions of persons insured (in million riyal)	20,900	23,200	3,500	4,300

The General Insurance Corporation has increased its earnings to 4.3 billion Riyals in 2005 compared to 3.5 billion Riyals in 2004. It has invested its surplus funds in economic and development projects, whereby the funds invested reached 27.7 billion Riyals in 2005 compared to 21.6 billion Riyals in 2004. Investment earnings from treasury bonds rose to about 14.8 billion Riyals in 2005 compared to 9 billion Riyals in 2004, while dollar deposits reached the equivalent of 11.4 billion Riyals, in addition to revenues from shares in companies, banks and health facilities that reached 1.6 billion Riyals.

Investments of the General Insurance and Pensions Authority grew to 163.5 billion Riyals, compared to 130 billion Riyals in 2004, invested basically in treasury bonds and cash deposits. Both the Authority and the Corporation are striving to expand and diversify their fields of investment, despite the lack of clear, wide and strategic areas capable of realizing their financial sustainability.

Social Affairs

Concern for people with special needs and the less fortunate categories comes as a result of their suffering from numerous constraints and problems, foremost poverty. A comprehensive remedy for the status of these categories requires creating suitable conditions to absorb them, making institutional and legal preparations, and training and forming families on how to deal with these categories in a manner that reduces the resulting burdens on families and the community. In this respect, 3,296 handicapped persons received assistance and formation in 2005 of whom 1207 were women, while shelter was provided for 745 orphans and 956 minors of whom 61 were girls. The number of children benefiting from the comprehensive social services package reached 6,617 including 2,316 girls, while there were 564 street children

Table 2-4: Social Protection Activities in 2005

Activity	Males	Females	Total
Care and rehabilitation for the handicapped	2,089	1,207	3,296
Orphans	4,745	0	4,745
Minors	895	61	956
Street children	564	0	564
Children benefiting from comprehensive social services	4,301	2,316	6,617
Child labor	196	19	215
Women integration	0	60	60
Combating begging	1,000	0	1,000
Safe childbirth package project	0	50,000	50,000

including boys and girls who benefited from services provided by the safe childhood centers, and the status of about one thousand child beggars was rectified. Moreover, 215 children including boys and girls from among the child labor force were returned to school, while a mechanism was put in place in cooperation with concerned authorities to abolish child trafficking, from which around 386 children have benefited.

The Ministry of Social Affairs and Labor works in cooperation with the local authorities and the local and international NGOs, and in coordination with the centers and institutions engaged in this field, to avoid the duplication of the service provided and to make them available to all. The Ministry has improved human resources in social protection institutions through training, vocational formation by attracting efficient staff, and also by developing programs for dealing with social problems resulting from poverty such as vagrancy, begging, child labor, juvenile delinquency and handicaps.

Gender Integration

As part of its general approach and policies aimed at poverty reduction, the government has integrated women and gender issues in all fields of development, with the aim of improving the status of women and empowering them to become main players in the progress of society and in bridging the gaps in all fields. Likewise, the government has consolidated coordination and cooperation between the agencies concerned with women and NGOs in order to achieve the goals of empowerment and awareness. The National Women's Committee (NWC) prepared a comprehensive report which identifies women's needs in all fields: health, education, economic empowerment, political partnership and violence against women as part of the report outlining Yemeni needs to achieve MDGs. The Committee also participated in integrating the gender dimension in plans and strategies.

Despite government efforts to support women's political participation, whether through parliamentary elections or in local councils, as well as in government posts up to high positions, such participation is still limited because of poor public awareness, and the inability of women to overcome traditional prejudices. Accordingly, the National Women's Committee is working for the adoption of a quota system for all elected councils at the central and local levels, and lobbying to form pressure groups in order to influence the political powers, demanding to raise the quota of women in parliament and in the elected councils to 15%.

Concern for capacity-building for women was manifested in conducting numerous courses, workshops and seminars dealing with women's issues, foremost being developing programs and projects directly targeting women in urban and rural areas, especially on the subject of reproductive health through the establishment of 16 projects for improving reproductive health and family planning centers and reducing children and maternal mortality rates, in addition to increasing programs for spreading reproductive health awareness and prenatal and maternity care. With regard to girls'

education and literacy, 567 teachers and 452 nursery school teachers received training in five governorates. In addition, numerous sessions were held to spread awareness of the importance of: girls' education especially in rural areas, increasing job opportunities, agricultural development and poverty reduction.

The NGOs contributed to consolidating the participation of women in economic activities by providing training and vocational formation for poor women and availing them the opportunity of acquiring professional skills. Those NGOs also encouraged them to establish small projects; 247 credits valued at 63.3 million Riyals were granted to women by the Financing Small Industries and Projects Fund. The number of beneficiaries receiving microcredit from the SFD was 18,560 women who have benefited directly and 47,030 women who have benefited indirectly; while in the case of small credits 19,330 women benefited directly and 26,800 women benefited indirectly.

Table 2-5: Development of Major Indicators in 2005

Goal	Indicator	Basic Data 2000	Planned 2005	Actual 2005	
Control of population growth	Population (millions)	18.3	21.4	20.3	
	Fertility	5.9	5.2	6.2	
	Maternal mortality rate (per 100,000 births)	351	305	365	
	Infant mortality rate (per 1,000)	67.8	59.9	75	
	Mortality rate of children under five (per 1,000)	94.1	81.6	101.9	
	Population growth rate	3.5	3%	3.0	
Poverty reduction	Poverty rate (1998)	Total	41.6	35.9	35.5
		Urban	29.9	34.4	18.7
		Rural	45.1	39.3	40.6
Expanding health services coverage	Percentage of health coverage for population %	Total	50	65	62
		Urban	80	80	80
		Rural	25	42	20
Increasing enrolment in education	Rate of enrolment in basic education %	Total	62	69.3	77.2
		Males	77.2	82.4	88
		Females	43.9	55	64.2
	Increase in outputs of scientific specializations	12.2	16	27.5	
Enhancing role of social care	Number of beneficiary cases	450,160	600,600	746,000	
Expanding insurance coverage	Number of persons insured	Government and public sector	415,000	495,635	498,261
		Private sector	45,000	70,000	81,091
	Number of beneficiaries of pensions	Government and public sector	40,473	60,857	64,757
		Private sector	1,120	2,199	2,488
Curbing gender gaps	Gender development guideline	0.428			

Chapter Three

Environment, Natural Resources and Infrastructure

Part 1

Environment and Natural Resources

The government is making a tangible effort to incorporate environmental dimensions in its development strategies, programs and plans, as it is aware that the achievement of sustainable development requires the protection of the resources on which the poor depend to a large degree. Accordingly, the Poverty Reduction Strategy (PRS) designated the principal purpose of the environmental sector as the **enhancement of the environmental management of natural resources, the empowerment and partnership of beneficiaries, the employment of the poor in environmental projects and the enhancement of the role of women and youth in environmental preservation.**

Environmental Protection and Maintenance

Procedures adopted in 2005 included the enhancement of the institutional structure and the technical capacity of environmental management through the issuance of a number of decrees. Foremost among these steps was the issuance of decree n°101 for 2005 establishing the General Environmental Protection Agency and the preparation of the Agency's organizational regulations. Also, decree n°6 for 2005 was issued approving the National Strategy and the Implementation Plan for the Protection of Biodiversity, and decree n°28 for 2005 endorsed the National Strategy for the Integrated Management of Hazardous Waste, in addition to the Cabinet decree n°99 for 2005 ratifying the Plan for the Integrated Management of Coastal Areas (Aden City). Moreover, in light of Yemen's commitment to international treaties and covenants, law n°9 for 2005 was issued approving Yemen's joining the Rotterdam Agreement, in addition to the Presidential decree n°46 for 2005 endorsing the Cartagena Protocol annexed to the agreement on biodiversity, as well as the Cabinet decree n°76 for 2005 banning persistent organic pollutants.

The concerned authorities prepared a Draft National Strategy for Environmental Communication and Awareness, as well as a project for updating the law on environmental protection and introducing the necessary amendments to its executive regulations so as to implement the law and prevent the overlapping of measures taken to safeguard the environment against violations. Work began in cooperation with the Ministry of Petroleum to prepare a multi-stage strategy to replace common benzine with unleaded benzine; as well as initiate the preparation of a strategy for handling chemical materials in cooperation with the WHO. Draft projects were also prepared for the protection of birds, coral reefs, tortoises and al-shura trees, in addition to an implementation work plan on the role of women and a strategy for the environment, as well as administrative plans for four wildlife reserves on the island of Suqutra (Shu'ab - Naith - Roche- Ayhafat). Moreover, a red list was made of endangered species of wild plants and animals, while an experimental nursery was set up in Aden which depends on a water network using waste water from the water treatment plant in Haswa.

With regard to protection of the maritime environment a program was implemented for collecting, compiling and documenting the studies, reports and researches on the maritime and coastal environment of the governorates of Aden and Al-Hodiedah for the purpose of establishing a reference database to facilitate monitoring and control. A complete mapping was also made of the three humid areas (Al-Mimlah, the swan lakes and Al-Haswa area) in Aden governorate, while the canals linking them were reopened so as to preserve the birds, and work was begun in the solid waste dump project on the island of Suqutra.

During that year field studies and surveys were carried out in various environments including a preliminary study on the assessment of environmental conditions in the governorate of Raimah, a study of the hazardous household and medical wastes of 19 governorates to identify their volume and means of disposal, a study of the volume of industrial waste in five governorates (Aden, Lahaj, Abyan, Al-Hodiedah, Hadhramout), a study of treated water resulting from the sewage plants covering 16 governorates, a study of adaptation in coastal areas to the climatic changes in the sectors of agriculture and water, an updated study on the evaluation of the environmental impact of establishing the LNG exporting port and its affiliated installations in the area of Belhaf - Bir Ali- in Shabwah governorate, and finally a study carried out by the Poverty Monitoring Central Unit on the environmental impact of using treated water for irrigation purposes in Sana'a, Dhamar and Ibb.

A number of field surveys were conducted; foremost a listing of NGOs specialized in environmental and natural resources, as well as a

listing of the agencies concerned with environmental and natural resources to pool efforts and build a database at the national level. A survey was conducted of the coastal belt extending from Al-Khukhah to Bab-Al-Mandab with the aim of assessing the current condition of the al-shura tree and the dangers influencing it. A field survey was also carried out of the impact of digging artesian wells in the wildlife preserve of Bara'a, in addition to a survey of servicing workshops for refrigerators as well as companies engaged in the field of refrigeration and air-conditioning throughout the country which use freon; as well as a field survey of the dioxins and freon used in all governorates.

In the area of environmental sanitation, the concerned authorities continued their inspection and field campaigns covering provisions stores, restaurants, confectionery workshops, drinking water purification and bottling plants, shutting down contraveners and destroying 575 tons of foodstuffs unfit for human consumption.

Box 3-1: Examples of Environmental Studies

- Study of the environmental impact of the Sa'adah-Saqin road and the Haydan- Al-Malaheez road projects.
- Garbage dumps project of Al-Hodiedah city.
- Comprehensive environmental study to select an alternate location for Taiz garbage dumps
- Socio-economic environmental study of the humid areas in the zones of Al-Mimlah, the swan lakes and Al-Haswa in Aden.
- Survey study of the major environmental problems in Aden governorate.

About 2346 thousand tons of solid waste from all governorates was disposed of, while 2343 kg of insecticides were used to curb the spread of flying and crawling insects as well as stray dogs. Despite the improvement of the situation, environmental sanitation is still suffering from poor performance due to institutional shortcomings. Thus, the course of current action is aimed at enforcing the regulations set for environmental conditions, compiling and categorizing the systems and statutes related to environmental health while updating and upgrading them, and directing the private sector to invest in building and operating service utilities and environmental health facilities in cooperation and coordination with the other concerned agencies.

In 2005 17 environmental clubs were founded in 15 schools located around the wildlife reserve of Mount Bora'a with a membership of 201 students and teachers. They were supplied with books and reading materials; and a training workshop was held for them. The second summer camp was held for advocates of the environment in the Aden governorate, and a school booklet on genetically engineered materials was prepared.

Water Resources

There is an acute shortage of water resources in Yemen, whether surface or underground water. There are expectations of a further widening of the gap between the water needs of the population and available water resources in light of increased demand, shortcomings in regional planning and the lack of balanced development in urban and rural areas, insufficient water sector infrastructure and inefficiency water use. The deterioration of the water quality and its pollution is one of the main problems that prevent the economic use of water, in addition to its harmful effect on the environment and public health.

The government of Yemen is exerting efforts at the national level to include sustainable management of water resources in its development strategies, work plans and programs, even though it still lacks sufficient resources for their implementation. It has adopted a number of procedures to consolidate the legislative and organizational aspect, including amending the water law which was submitted to the Cabinet for approval, issuing Cabinet decrees defining a water precinct for the potable water fields of the cities of Aden and Al-Hodiedah, as well as organizational regulations and controls. The system of permits for well-digging in all basins also began to be applied.

Numerous activities began to be implemented in 2005. Climatic and water tracking stations and equipment for gauging the flow in valleys were installed, including 109 rainfall tracking stations in eleven governorates, 13 integrated climatic stations, 13 manual climatic stations, 32 stations for gauging the flow in valleys, in addition to identifying locations for rainfall stations in Hadhramout, Marib and Al-Jawf. Other activities included carrying out periodical inspection visits to the automated stations at the basins affiliated with the General Authority for Water Resources (Sana'a, Amran, Aden, Taiz, Surdood, Lahaj, Abyan, Ibb, Marib and Sa'adah), the automated collection of digital data from tracking stations and the analysis and storage of information in the

databank, and consequently producing the results in periodical and annual reports. Preparations were made to implement a remote-sensing study in Tuhamah, Dhamar, Radaa'a, Abyan and Ahwar.

Other achievements recorded in 2005 included a study of the quality of water in certain basins, a survey study of the basins, a map of basin distribution, evaluating the quantity and quality of water resources in the governorates of Taiz, Hadhramout, Abyan, Lahaj, Sana'a and Sa'adah. Geological studies were conducted on the sources of pollution in the region of Amran. A plan for water management in the Sa'adah basin was prepared; a committee was formed for the basin and other committees were also formed for water users in all areas of the basin. Meanwhile preparations were also made to establish water-user groups in the valleys of Hadhramout and Ahwar for the management of water and irrigation projects.

Box 3-2: Results of the Wells Survey Study

Number of wells in Radaa'a basin was 2,410 pipe and manual wells, and in Tuhamah basin was 10,200 manual wells (Rema'a and Zabid valleys). The number of wells in the valleys south of Tuhamah is expected to increase to 19,000 wells. There are 2,565 pipe and manual wells in the areas of Amran, Ibb and Mahwit. According to calculations there are 136 water installations and dams.

In addition, the year witnessed several control activities that were carried out to monitor random well-digging throughout the governorates, which resulted in identifying 518 cases of violations that were presented to court. In this context, an operations room was set up, a hot line was installed, a booklet containing information on random well-digging and the procedures organizing digging was prepared, and a scientific magazine was published. Awareness programs on water use were diffused and published in the media, campaigns were mounted by NGOs, posters and leaflets were published and distributed, spots were produced, and talk shows and programs were transmitted on radio and television.

As for the institutional aspect, new branches of the General Authority for Water Resources were established in Hodiedah and Dhamar, as well as an office in Ibb; coordinators were appointed in Al-Baydha, Hajjah, Al-Jawf, Marib and Al-Mahweet. A new Geophysics department was established and equipped with survey instruments, while its staff was trained in conducting studies and surveys; and the water databank was upgraded and equipped with computers, software programs as well as equipment for measuring the water level and examining its quality.

Irrigation and Water Installations

In order to raise the efficiency of irrigation from the waters of dams and barrages and improve the techniques of surface irrigation the following measures were taken in 2005 including: the installation of 8 radial sluices for diversion barriers, the renovation and replacement of 1,640 sluices of the control installations on the canal network, the protection of 9 villages, revamping 3 diversion installations, and the introduction of a 150-meter long iron bridge. Around 27,000 mostly poor families in the valleys of

Zabid and Tuban benefited from these interventions. Other accomplishments included a network of plastic pipes covering 1,730 hectares was installed to benefit 363 farmers; also works were completed for the irrigation network at Buruj, Al-Suweiry and Ba'atir. The Agricultural and Fishery Production Promotion Fund financed 99 water projects costing 2.4 billion Riyals of which the Fund contributed 2.3 billion Riyals. Also 266 groups of water users comprising 3,805 farmers were formed; while modern irrigation techniques and protected agriculture in select areas in the governorate of Sana'a (Sa'awan) were introduced with the aim of enhancing the effectiveness of managing and improvement of harvested waters. In the field of improving rainfed agriculture and management of irrigated agriculture 71 new agriculture techniques were introduced of which 31 were improved varieties of 11 crops of high-yield and high resistance to environmental conditions in different agricultural regions.

Part 2

Infrastructure

Despite the improvement realized in infrastructure services, these services still suffer from random implementation and poor inter-agency coordination, in addition to the concentration of electricity and water projects in particular in urban areas. This section deals with all the services provided in the water, sanitation, electricity, roads, transportation, ICT, housing and urban planning sectors.

Water and Sanitation

Extending water supplies for municipal services as well as sanitation services constitutes a vital challenge because of the increasing population growth and the scattered population settlements and their limited population base in addition to the scarcity of available water. The government is keener at present than at any other time in the past to complete the development of the institutional and legislative system, to adopt effective water policies compatible with modern demands and to provide stability for the population, so as to ensure sustainable development. In this context, the national strategy for the water and sanitation sector and its investment program for 2005-2009 were issued. In order to complete setting up the institutional and legislative structure of the sector it is necessary to re-evaluate institutional functions and adjust organizational conditions, thereby defining the function of each side as well as the mechanisms used, and adopting the pertinent decisions within the context of the Ministry of Water and Environment (MWE).

In 2005 the two local institutions of Hajjah and Al-Baydha were established, whereby the organizational structures and regulations of these institutions were put in place and their cadres were consolidated to guarantee their financial and administrative independence, while their supervision as well as their general legislative and legal framework in addition to the development plans remained centralized. Draft decrees

were drawn up to establish two local institutions in Dhamar and Sa'adah, while two projects for amending the water law and its executive regulations were included in the agenda of the House of Representatives.

Potable water services showed a marked improvement during that year in urban areas in particular where coverage reached 65% of the population, slightly below the target set at 68%; water produced increased to 125.7 cubic meters; water consumption reached 80.4 million cubic meters or 64% of the water produced and about 3.3 million people benefited through 456,000 connections. Water coverage in rural areas rose by 6.6%, benefiting about one million persons. Sanitation services spread in the main cities and towns, providing coverage for 35% of the population; the number of beneficiaries of the main sanitation network rose to 1.9 million through 259,000 connections, and the volume of water treated in sanitation plants reached 32.3 million cubic meters.

The pricing of the water sold by water organizations varies according to their operating costs, and follows a tier system of ascending brackets which takes into account those with limited income and the poor. Total earnings from water and sanitation services reached about 8.3 billion Riyals, while total expenditures were about 7.1 billion Riyals.

Electricity Sector

Electric power is one of the basic services promoting economic growth and job creation. It is also the sole source of energy in urban areas and one of the main sources in rural areas. Priority was given to the electricity sector in public investment programs, these projects accounting for 8% of total public investments over the period 2003-2005, and amounting to 56.9 billion Riyals. However, these investments fell short of the need and demand for Electric power, despite the high investment and operational expenditure on the sector. The annual subsidy granted to the Public Electricity Corporation (PEC) was maintained at 6 billion Riyals in order to fix the

Box 3-3: Electric Power Sources

The national system for electric power generation is still operating in a traditional way, using diesel oil and mazout instead of the modern and cheap methods using natural gas and the new and renewable sources of energy, although both the Second Socio-Economic Development Plan and the PRS have adopted policies for shifting from the generation of energy using the heavy fuel to the generation using the new and renewable energy sources.

Box 3-4: Electric Power Tariffs

The price of electric power is of paramount importance, especially in poor areas, as individuals cannot afford the cost of this service. The average price of electricity in rural areas that depend on the power generated by the private sector facilities is 3 to 5 times higher than the power produced by the Public Electricity Corporation (PEC). The high cost of the diesel oil prevents any economic savings, as its price at the border point exceeds world prices by about 10%. Moreover, the PEC is suffering from the unjust price of the heavy fuel used for operations, as the price of the fuel sold by the Yemen Petroleum Company is based on the Rotterdam price (FOB) which is 170 Dollars/ton, with an increase of 10-15% over the Mediterranean Sea fuel, which is 150 Dollars/ton.

tariff set for consumers in the lowest brackets (0-200 kwh) who are charged a nominal rate that does not exceed one quarter of production costs.

The sector is faced with a number of challenges, foremost being the increased demand for electricity, the high price of fuel used for power generation such as mazout and diesel, and the fact that losses incurred as a result have exceeded the internationally accepted levels. Although the compound power production did not increase over the past year as a result of the trend to limit the building of power-generating plants operated by traditional fuel, there has been an increase in the value of electricity sales because of a slight decrease in power losses from 25.1% in 2004 to 24.5% in 2005. However, the factors which limit the effectiveness of the procedures taken to reduce power losses persist, such as the length of the distances between transformers, the dilapidation of stretches of the network, the deterioration of principal stations and the high cost of periodical and emergency maintenance.

The number of subscribers to the PEC rose from 1,055,000 subscribers in 2004 to 1,109,000 in 2005 with a growth rate of 1%. The rate of coverage and the per capita share is still very modest, as coverage remains below 40% of the population, and the per capita share was 235 kwh/ subscriber in 2005, representing a slight increase of 1.3%. Small consumers reached the lowest level of the average tariff of 10.42 Riyals. The financial deficit of the PEC keeps growing every year as total costs of the corporation rose by 6.9% whereas its earnings rose by 5.5%, which indicates that it is unable to cover its costs.

Electricity Services in Rural Areas

The rural power generating capacity rose by 22 megawatts as a result of the implementation of electricity projects in certain villages and rural population settlements, whereby the total rural power capacity has reached 103 megawatts. The funds spent on rural electricity are not compatible with the number of the rural population, the wide rural areas nor the positive impact of the introduction of electricity on the life of the poor due to the lack of clear standards for the distribution of those projects, beside the absence of operating mechanisms and guarantees for the continuation of their operations.

Box 3-5: Rural Electricity Strategy

Development plans and strategies have stressed the importance of an outline and clear vision for the rural electricity. In 2005 work began on a strategy for rural electricity and for promoting renewable energy, financed by the GEF and the German government. Three international companies are conducting three studies: the first on the strategy of rural electricity, the second on the strategy of renewable energy and sources and locations of winds and the third on preparing a strategy and marketing mechanisms for lighting systems based on solar energy. These studies are expected to be completed by 2007.

Generating Energy from New Sources

The government is especially keen on generating energy from new sources which preserve the environment, such as natural gas, as well as exploiting wind and solar power. The Ministry of Electricity has finalized the procedures for allocating the

contract of the tender for the establishment of a natural gas-operated power generating plant in Marib with a capacity of 31 megawatts, while the implementing company is carrying out the technical operations of fencing the site, testing the soil, completing the engineering design for the installation of the machinery and equipment for the gas installations. On the other hand, work began on the second and third components of the project to install relay lines between Safer and Sana'a as well as the main relay station. Preparations are underway to invite tenders for the second phase with a capacity equal to that of the first phase. However, there are no practical initiatives to generate power from renewable sources, which is a clear indication of the private sector's lack of interest in this field.

Box 3-6: New and Renewable Energy

Solar energy: Yemen has a good rate of sunlight hours, ranging from 7.3 to 9.1 hrs/ day with an average of 8 hrs in winter, which is suited to the needs of solar water heaters.

Wind energy: the wind speed in coastal and mountainous areas as well as in the valleys is quite reasonable all the year round, which makes it possible to install turbines to produce electric power for household purposes, in rural areas in particular.

Thermal energy: Studies have indicated the feasibility of building a thermal power station with a capacity of 125-250 megawatts, which is equivalent to the present energy deficit.

Road Sector

The road sector took the lion's share of public spending with road projects taking up 16% of investment spending. However, the actual implementation of asphalt roads is short of the target for 2005 or the Strategy's target for the three years set at building 3,300 kms of which only 2,273 kms were achieved. This shortcoming was caused by a number of technical and administrative factors, mainly the high cost of construction and maintenance, the delay in issuing the law governing work on road projects, and the absence of a vision and a strategy for the road sector. The roads constructed lacked the sufficient supervision and the application of the necessary specifications and standards, which resulted in their poor condition which requires maintenance and improvement a few years after they are built. The strategy targeted building 2,950 kms of gravel roads, while 4,103 kms were actually built in 2003-2005, an increase of about 71% over the targeted figure.

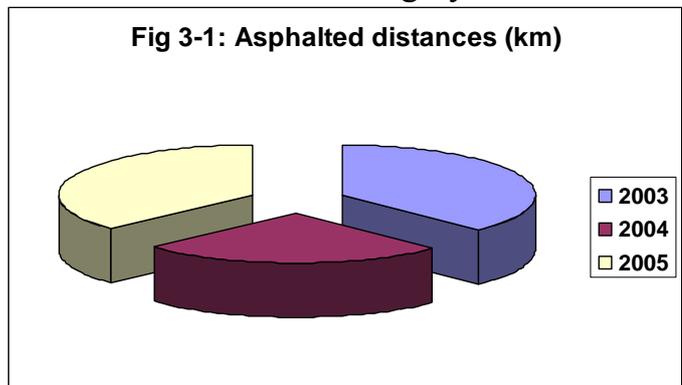
Box 3-7: Roads Constructed and their Financial Cost

The number of road projects under construction in 2005 was 340 projects. In a large number of these projects only 10% of the work was completed, which is not proportional with the volume of available resources. The total amounts spent throughout the year for road projects and to pave and asphalt the side-streets was 54.3 billion Riyals divided on 837 kms of roads asphalted, 1,461 of roads cut, 5 million m² asphalted and 534,304 m² paved inside the cities, making advance payments, paying price differences, and settling invoices for projects after liquidation, as well as payment of dues for the phase diverted from 2004.

The PRS has stressed the importance of the coastal road and of the inter-regional linking to facilitate movement between governorates along the Northwestern coast up

to the Eastern coast to link the Republic of Yemen to the two states of Oman to the East, and the Kingdom of Saudi Arabia to the Northwest, with a total length of 1,760 kms. It also contributes to increasing trade, tourism and transit traffic with the member states of the Gulf Cooperation Council (GCC). Works completed during 2005 included asphaltting 238 kms and cutting 261 kms, including tunnels in the mountain chain of Fartak in the governorate of Al-Maharah, bringing total works implemented to 1,599 kms or 90% of the road.

Implementation of road projects is still supervised by the central authority because of the lack of sufficient know-how at the governorates' administrative units. In 2005 a stretch of 840 kms was asphalted and 1,961 kms of roads were cut to link towns with district centers. Many of these projects suffer from the lengthy durations of implementation due to the lack of sufficient financial allocations, and the drain caused by the extra funds required to cover the price difference in contracts and compensations. The government is currently studying the possibility of experimenting with the expansion of the authority of governorates with the capabilities and capacities required for implementing some of the road projects, which can be generalized in the future pending the assessment of the outcome of this experiment.



During the year side roads were asphalted in various governorates covering an area of 5 million m², and 534,304 m² were paved, while 35 kms of asphalt roads were maintained and improved, 71 kms received periodical maintenance, in addition to the routine and emergency maintenance works done costing 1,049 million Riyals. However, the lack of a system for standards and specifications, the non-adherence of vehicles to the rules of allowable loads and the shortage of resources in the Road and Bridge Maintenance Fund (RBMF) contribute to the persisting deterioration and poor condition of the roads.

The government is implementing the rural roads program in partnership with the World Bank and certain donor agencies. The first phase 2002-2005 targeted 40 road projects totaling 1,147 kms benefiting about 4 million persons, of which 50% has been completed. The second phase 2006-2010 includes the implementation of 1,336 kms of roads, as it was designed to comprise a larger number of projects with the double amount of funds. This phase is characterized by having more efficient and effective standards for project selection and their proximity to needy and poor areas.

Transportation Sector

The transportation sector was influenced by the reform policies adopted by the government since the 1990s, which resulted in the role given to the private sector to provide maritime and land transportation services. Air transportation services

continued to be monopolized by Yemen Airlines, the sole national air carrier. The transportation sector still lacks a strategy to specify its goals, set guidelines for its policies and coordinate with other sectors, including the enhancement of its role in supporting all the activities in the economy, both in production and in services sectors, within the free market system.

Maritime Transportation

Maritime transportation regained its vigor in 2005 after overcoming the negative impact resulting from the two incidents of the American vessel "USS Cole" in December 2000, and the French petroleum tanker "Limburg" in October 2002, which led to a drop in the number of vessels reaching Yemeni ports as a result of the hike in insurance premiums against the risks of war. Yemeni ports have undergone a process of development and updating of their operating mechanisms through the construction works for their wharfs, maintenance and repair of their maritime installations and equipment, and the completion of technical studies and designs for building a port in Suqutra. During that year offers submitted by companies for the management of the container port of Aden were analyzed, and the tender was allocated to Dubai International Ports Company. Final arrangements are being made to remedy the condition of Nashtoon port complex in the governorate of Al-Maharah, and to cut down on operating costs by converting it into a fishing port.

Air Transportation

In 2005 the project for the amendment of civil aviation law n° 12 for 1993 was finalized, thus keeping pace with modern developments and meeting market needs. In the same year approval was granted for opening air transport between Arab states, in accordance with the Cabinet decree n° 214 for 2005, which is expected to come into force in 2006. Despite the renewal of the partenariat agreement between the Republic of Yemen and the Kingdom of Saudi Arabia, and the capital increase for Yemen Airlines, the agreement is currently being revised in the light of new local circumstances as well as regional and international developments.

There has been a marked increase in the use of air transportation to carry cargo because Yemen Airlines has introduced modern spacious airplanes to its fleet. Consequently, the volume of cargo transported rose to 19.1 thousand tons compared to 16.5 thousand tons in 2004, while the number of passengers increased from 964,000 passengers in 2004 to 1,139,000 passengers in 2005, 896,000 passengers of whom used international routes with an increase of 23%. On the other hand, despite the completion of technical studies and the availability of funding for building the new Sana'a airport, the project is proceeding at a very slow pace.

Land Transportation

The legislative and organizational structure of land transportation was also completed in 2005 based on law n° 33 for 2003, whereby 11 regulations covering various land transportation activities were issued, in addition to the draft regulations on passenger

and cargo fees. As a result of the open-door economic policy adopted by Yemen to liberate the transportation market and end monopolies of various land transport activities, the number of international land transport companies and agencies increased to 23 in 2005 compared to 18 in 2004, which led to a reduction in bus fares. The number of incoming passengers traveling by land reached 185,232, transported by 5,908 bus trips, while departing passengers reached 240,702, 6,463 bus trips. The number of bus companies transporting inter-governorate passengers rose to 6, while the number of offices for transporting cargo reached 40 offices throughout the governorates. The General Land Transportation Corporation is suffering from aging vehicles and the high cost of wages, salaries and maintenance. The situation worsened when the Corporation bought unsuitable vehicles. These factors contributed to the drop in the number of passengers using Corporation buses for inter-governorate transportation from 289,041 in 2004 to 224,933 in 2005, and the reduction of its activities in general.

Communication and Information Technology Sector

The Communication and Information Technology Sector witnessed major improvements during the last two decades. Information technology became one of the means for obtaining information, which in turn increases the range of options for individuals, particularly the poor. Human development reports cited the use of outdated technology in spreading and exchanging information as one of the causes of poverty.

Quantitative and qualitative development in the Communication and Information Technology Sector continued over the last five years. The number of accessible fixed telephone lines reached 1,278,315 in 2005, an increase of 2.77% compared to 2004. Operating lines rose from 798,136 to 901,385 lines over two years, an increase of 13%. This resulted in a rise in telephone density from 4.13 to 4.44 lines per 100 persons.

Rural communications did not benefit greatly from this expansion because the communications plan at this stage was focused on fulfilling the growing demand in main cities and towns. Another reason was the high cost of rural communications projects. Despite the increase in the number of subscribers in rural telephone exchanges from 124,921 subscribers in 2004 to 152,174 in 2005 the rate of coverage

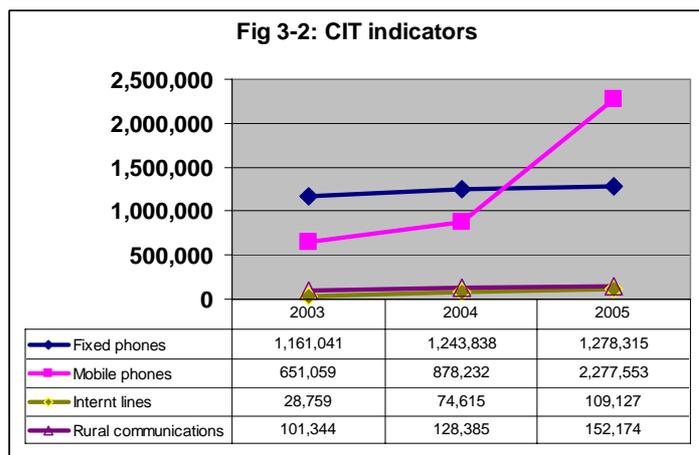
Box 3-8: The Information Gap and its Effect on Development

The Arab Human Development Report for 2004 entitled "Towards the Establishment of a Knowledge Society" dealt with knowledge and its relationship with human development; regarding knowledge as the corner-stone of human development. The report indicated that the ways and means for disseminating the different branches of knowledge in Arab countries are hindered by many difficulties, which have created a huge gap with respect to knowledge between advanced and least developed countries. One of the most important features is the ratio of telephone lines in Arab countries, which reached the fifth of the number in advanced countries; also the number of PCs of 18 PCs per 100 persons compared to 79 PCs per 100 persons as a world average, while only 1.6% of the population are internet users.

compared to the population in these areas is still low at only 12% of total fixed telephone lines.

Growing demand for mobile telephones reflects the rise of local demand, especially after the liberalization of the service and opening the field to private sector investment. By the end of 2005 the number of subscribers has risen to 2,277,553, an increase of 1,399,321 lines over the previous year and a growth rate of 160%. Despite the rapid spread of mobile telephones, the fast spreading communication centers increased by 50% in 2005, to reach 10,367 centers throughout the governorates.

Yemen is classified among the four fastest growing Arab states in the field of internet users, as the number of users increased to 109,127 subscribers in 2005 compared to 74,615 subscribers in 2004, or an increase of 44%, mainly because of the service improvement and the introduction of new techniques. The General Telecommunications Corporation still monopolizes internet services, which makes the service cost high and beyond the reach of a large segment of the population. About 5,000 PCs were distributed in 2005, as part of the President's project to generalize computer use, bringing the total number of PCs distributed during the first stage of the project to 20,000, representing an achievement rate of 90%.



Post and Postal Savings

The General Post and Postal Savings Authority endeavored to upgrade the traditional role of the post service to keep pace with modern development, and to enhance the competitiveness of the services offered through its offices throughout all governorates, especially after the admission of international and local companies to the market. Indicators showed a deterioration during the year, as the number of people serviced by each post office rose from 103,000 in 2004 to 104,000 in 2005, as a result of the decline in demand for traditional services on the one hand, and the increase in the financial services provided by the Authority, such as current and savings accounts which rose by 442% on the other. The success of disbursing pensions as well as social welfare, granted by the Social Welfare Fund (SWF), through post offices went a long way towards mitigating the hardships faced by beneficiaries, the poor in particular, by sparing them the trouble of traveling to the governorates' capitals. The number of cases benefiting from post box services reached 350,000 cases, or 50% of the total number of cases registered with the SWF. Despite the importance of the spread and development of these services they are still confined to cities and certain governorate capitals, this requires identifying methods to provide mail service to rural areas including mobile mail.

Housing and Urban Planning

The housing policy aims at securing suitable housing for limited income groups, realizing stable living conditions for them, engaging them in income-generating projects and improving their standards of living. Urban master plans contribute to achieving the optimal use of land, organizing its functions and curbing the spread of squatter districts and areas; 93 urban master-plans for major cities and towns were prepared in 2005, compared to 149 in 2004. A survey of squatters was completed in Sana'a and Aden, covering an area of 1,167 hectares in the first phase, while the second phase will cover the remaining governorates. This will make it possible to determine the requirements for improving these areas.

Table 3-1: Development of Major Infrastructure Indicators for 2005

Goal	Indicator	Basic Data 2000	Planned 2005	Actual 2005	
Increasing the coverage of water and sanitation services	Percentage of population supplied with water from main network %	Total	57.4	66.2	--
		Urban	64.0	69.0	62.9
		Rural	--	65.0	30
Increasing the coverage of electric power	Percentage of population provided with electricity from network %	Total	6.2	8.0	--
		Urban	33.0	44.0	35
		Rural	17.0	22.2	22.6
Linking rural areas to markets, and facilitating procurement of services by expanding the road network	Percentage of energy losses in the main network %		38.0	25	24.5
	Length of asphalt roads (in km)		6,586	1,250	2,273
	Length of gravel roads (km)		3,915	1,200	10,662
	Length of restored asphalt roads (in km.)		--	101	35
	Length of strengthened and improved asphalt roads (km)		--	127	--
	Length of roads receiving routine maintenance		--	1,270	71

Chapter Four

Good Governance

In July 2005 the government resumed implementation of the delayed package of financial and administrative reforms, which coincided with the beginning of serious and organized implementation of the procedures related to issues of good governance, foremost being the protection of public funds and corruption control. International reports for 2005 revealed a relative improvement in certain indicators, specifically trade, environmental sustainability, policies and systems, transparency, and public sector accountability and corruption. The general indicator for country policy and institutional assessment remained unchanged compared to the previous year at 3.3 out of 6 points. Yemen was given almost the same rating for 10 main indicators out of 16 which are: the management of macroeconomy, the financial sector, the business environment and regulations, gender equality, equal access to public resources, human resources development, social protection and employment, equity rights, rules based on good governance, the quality of budgetary and fiscal management and lastly the quality of public management. The rating given to Yemen dropped in three other indicators: financial policy, debt management policy and revenue mobilization.

Box 4-1: Adoption of Good Governance Reforms

Although the government adopted the idea of the good governance reforms upon clear directives from the political leadership, some of the measures adopted by donors such as reducing the portfolio of loans granted by the World Bank for the financial years 2005-2007, as well as rejecting Yemen's eligibility for Millennium Challenge Fund of the United States government, exerted pressure on the government to accelerate the tackling of the good governance issues. Most of the outcomes of Yemen's Country Policy and Institutional Assessment (CPIA) for 2005 were low, as well as Yemen's indicators for the various fields used by the Millennium Challenge Fund, primarily the indicators for corruption, rule of law and government effectiveness.

There was a slight improvement in the indicator for established concepts of corruption in 2005 that reached 2.7 out of 10 degrees, as Yemen was rated as state n°106 out of 159 states included in the Global Transparency Report. Good governance indicators set by the World Bank Institute show an improvement in Yemen's position with regard to three indicators in 2004 compared to 2002, and a decline in three others. There was progress in the indicator of the efficiency of the public services provided by the government and the public sector's performance from 17.9% to 20.7% in the two indicated years. The rule of law indicator measures adherence to the terms of contracts and the relative effectiveness of the police and courts, including the independence of the judiciary and the crime rate, which rose from 7.7% to 12.1% for the same years. The indicators of political participation and accountability improved

Table 4-1: Position of Yemen with Respect to Good Governance Indicators

Indicator	Rating % (0 – 100)		
	1998	2002	2004
1. Political participation and accountability	33.0 Average	21.2 Poor	22.4 Poor
2. Political stability	10.3 Poor	13.0 Poor	7.3 very poor
3. Government effectiveness	33.9 Average	17.9 Poor	20.7 Poor
4. Quality of procedural structure	30.4 Average	27.6 Average	14.8 Poor
5. Rule of law	28.6 Average	7.7 very poor	12.1 Poor
6. Corruption control	32.2 Average	32.7 Average	22.7 Poor

from 21.1% to 22.8%. On the other hand, there was a marked decline in the indicators of the quality of the regulatory system that measures the negative effect of unsuitable policies and intricate procedures on good governance from 27.6% to 14.8%, while the indicator of corruption control dropped from 32.7% to 22.2%, and lastly the indicator of political stability dropped from 13% to 7.3%, which points to the government's reduced capacity to control corruption during this period.

Judiciary and Justice

Completing the construction and equipment of court houses and the prosecutor's offices is one of the main measures in the PRS. The number of court houses and prosecutor offices completed and inaugurated was 11 projects, in addition to the initial handover of 9 projects, and the current implementation of 10 other projects. Despite the buildings completed, there are still 120 court houses operating from leased premises which are in unsuitable condition.

The Judicial Inspection Authority (JIA) was activated through carrying out two unexpected inspection sessions covering all courts of appeal as well as courts of first instance, in addition to inspection campaigns and field visits to the various courts. These campaigns contributed to the strengthening of the judiciary movement of December 2004, and to the evaluation of the situation of the judicial authority, identifying shortcomings and deficiencies in human resources. It was therefore able to correct some of these shortcomings, by delegating for example much needed judges to branches of the courts of appeal and of first instance. The Authority also ascertained in the field the validity of complaints filed against certain judges and courts, and tackled them.

The training and vocational program for judicial authority personnel underwent major transformations in 2005 as 655 employees of various levels participated along with 321 judges, prosecution staff, and judge assistants who attended 3 workshops and 5 training courses; eight training courses were conducted to qualify administrative staff of the various organs of the judiciary authority and 334 participants attended. Moreover, the High Institute for Judges continued to offer training programs, and 23 students joined the fourteenth class of post graduate studies.

Despite the endorsement of the Cabinet in 2004 of the plan for upgrading commercial courts and the matrix of related functions for 2005 and 2006, the project was not fully implemented in 2005, as it was confined to a number of measures within the limits of

Box 4-2: Degree of Reliance on Courts and Security Forces

According to the polls, most poor people have no confidence that courts and security forces would be fair to them and would uphold justice. They also indicated that poor people depend on the Sheikh or the Wiseman to resolve their problems and that the majority resort to tribal traditions in arbitration and in settling disputes. This is due to their swift rulings and their presence in the community, as opposed to courts and security forces which are located away in the governorate capitals or district centers.

Table 4-2: Activities of the Judiciary Inspection Authority

Type of Inspection	Collective Unscheduled	Individual Unscheduled	Investigation of Complaint	Reconnoitering Visits	Total
N°	24	27	67	5	123

available resources. The total number of cases brought before commercial courts was 5,078 cases of which 1,777 were settled with an enforcement rate of 35%, and 3,301 cases were retained pending ruling. The number of cases submitted to the commercial branches of the various courts was 1,909 cases of which 531 or 28% were settled, while 1,378 cases were retained pending a ruling.

The Ministry of Justice (MJ) is presently automating the West Sana'a City court and prosecutor offices on a trial basis, in order to monitor all types of cases in all phases of litigation, starting with their initial submission to the competent courts and concluding with the

enforce
ment of
the
rulings.
This
automati
on will
be
gradual
ly
generali

Table 4-3: Development of Judicial Information Systems

Rulings system	Purpose	Status	Authority
Judicial statistics and judicial fees system	Development and updating	Data entry for 1425 H.	Judicial inspection – financial affairs – technical office - planning
Legal assistant	Design, programming & updating	Data entry & development	Judges-prosecutors-lawyers
System for case progress in first instance court	Design, programming & updating	Data entry for 1425 H, inspection & development	Judicial inspection – courts – litigants – lawyers
System for case progress for first instance prosecutor	Design, programming & updating	Data entry	Judicial inspection –prosecutors – litigants – lawyers
System for case progress in court of appeal	Design, programming & updating	Underway	Judicial inspection – courts – litigants – lawyers
System of case progress for prosecutor of appeal	Design, programming & updating	Underway	Judicial inspection –prosecutors – litigants – lawyers
Commercial courts system	Design, programming & updating	Underway	Judicial inspection – courts – litigants – lawyers
System for problematic cases	Analyzing, studying, designing, programming & updating	Data entry & development	Committee designated to resolve problematic cases.

zed in remaining courts and first instance prosecutor offices. Moreover, numerous judicial information systems were introduced, as well as administrative information systems such as personnel, warehouses, library, projects, secretariat, in addition to several websites on the judicial internet network.

Security and Achieving Stability

Security organizations have continued to improve and upgrade their performance and readiness, which went a long way towards controlling crimes. About 32,700 crimes were apprehended, making up 94.3% of total crimes committed in 2005. 32,200 cases were submitted to the prosecutor offices, and judgments were passed in 1912 cases. The number of deaths resulting from crimes, traffic and criminal accidents in addition to other crimes reached 5,416 deaths, in addition to 31,700 injuries, while material losses were estimated at 4,860 million Riyals. On the other hand, the role of judicial police was activated, whereby it reported and enforced over 18,700 judicial rulings and sentences. Moreover, with the exception of the three incidents of the abduction of tourists at the close of the year, resulting from the lack of strict application of the law, there were no other cases of tourist abductions.

Support continued for the role played by specialized security organs and departments by the completion of the third phase and the beginning of the fourth phase of the deployment of security forces. In addition, a General Department for Disaster Control was established, while the installation of the system for the early detection of disasters and emergencies was completed in five governorates, and work is underway to install

it in ten other governorates. Police and security forces carried out 294,700 patrol missions for security, combat, and escorting tourists, including 1,993 humanitarian missions. The remaining missions were devoted to apprehending stolen vehicles, and guarding members of the diplomatic corps, international organization and agency staff members, foreign delegations and tourists.

Corruption Control and Protection of Public Funds

The basic problem in this context was that the anti-corruption and protection of public funds policies and procedures were based on ill-defined remedies, and the lack of a legislative legal framework or an institutional framework to organize the policies and procedures, according to an annual plan of action. Consequently, the year 2005 witnessed a semi-organized movement by the government to consolidate these aspects with the issuance of law n°47 for 2005 ratifying the UN Convention against Corruption, while a draft law for corruption control is being prepared, and a study is underway at present to establish an Independent Supreme Committee for Anti-corruption. The efforts and studies undertaken during the year, including Yemen's commitment to the good governance initiative adopted in Jordan in February 2005, in addition to the proposals of some donor agencies, resulted in a matrix combining the reforms intended to improve Yemen's standing in the area of good governance and improving the investment climate. The government of Yemen, in cooperation with the German Agency for Technical Cooperation (GTZ), carried out many activities and organized events and workshops, including two workshops on combating corruption, activating the role of in-house supervision, auditing and inspection for preserving public funds, and protection against deception and corruption.

The Central Organization for Control and Audit (COCA) uncovered 86 cases that had resulted in damages of over 2.9 billion Riyals, equal to about 406,000 US Dollars or 215,300 Euros, as well as in-kind damages resulting from unlawful occupation of state land. These cases were referred to the Public Funds Prosecutor,

Box 4-3: Matrix of Reforms

The efforts exerted throughout 2005 resulted in the endorsement by the Cabinet, at the beginning of January 2006, of a matrix of reforms containing a package of reforms aiming at consolidating the role of the judiciary, protecting rights, increasing accountability, activating the role of the press in consolidating transparency, and strengthening the legal, organizational and institutional frameworks for fighting corruption. The package also aims at modernizing the civil service, improving the financial management and tax management, in addition to improving the public services and the partnership with the private sector.

Box 4-4: Issues Related to the Reform of the Financial Management

The three financial management reform workshops dealt with many priority subjects: the first dealt with the reform of the public budget apportionment system so as to prepare for the movement to the guidelines on government finance statistics for 2001; the second dealt with the reform of the public tender system and the third re-appraised most of the issues related to the public finance management reform.

while the number of cases studied reached 257 out of the cases reported by the Agency to the Prosecutor with the damages reaching 317,200 million Riyals, or about 11,500 US Dollars, in addition to other in-kind damages. The annual report on the general prosecutor's offices activities indicates that the total number of criminal cases related to public funds reached 1,281 cases, which caused 1,219 million Riyals in damages. Of this sum 1,144 million Riyals were in the form of cash money, movables and real estate that were returned to the state treasury, as well as other parties, through the Public Funds Prosecutor.

Public Budget Reform

During the past few years, the reform of public finance management was moving at a very slow pace, despite the start of the automation project for the public budget's financial system. The year 2005 was considered as marking the beginning of actual action to implement the policies and procedures for reform of the management of public finance, as three main workshops were organized producing findings and recommendations that were incorporated into the public finance management reform strategy, and approved by the Cabinet in August 2005. The Cabinet formed a ministerial committee to follow up and evaluate the implementation level of the

Total 4-4: Public Finance Management Reform Strategy

Axis	Reform Areas and Procedures
<u>First:</u> Budget reform	<ol style="list-style-type: none"> 1. Improving order of priorities and adopting procedures related to the budget. 2. Improving the level of budget implementation. 3. Developing financial management information systems to support the accounting process and the decision-making.
<u>Second:</u> Consolidating control and accountability	Consolidating in-house supervision and auditing procedures.
<u>Third:</u> Tender system reform	<ol style="list-style-type: none"> 1. Completing the endorsement of guidelines and forms for the tender system. 2. Prepare a package of rules and regulations for the tender system.
<u>Fourth:</u> Developing skills and capacities of workers in financial field	<ol style="list-style-type: none"> 1. Raising capacities of financial and supervisory staff and management. 2. Establishing a regional institute for training on financial management.

strategy, which is composed of four principal axes including policies and procedures targeting budget reform, the consolidation of financial control and accountability, the reform of the tendering system, and upgrading human capacities and skills. The strategy specified the field of each axis and priorities for procedures. The success of the strategy depends on an implementation plan that specifies precisely the procedures to be followed, departments and units responsible for implementation and the implementation schedule. This was supported by an agreement concluded between the Government of Yemen and donor agencies to push forward the public finance management reforms.

Civil Service and Administrative Reform

Restructuring is the most important component of the program for modernizing the civil service, as it constitutes the axis of targeted change and development, and the base approach for improving and upgrading the quality of government service and increasing its efficacy. Implementation of component activities proceeded at a slow pace in 2005, and the agencies were unable to perform the specified functions in full or according to the specified time frame. The delay was caused by many interlinked factors, some related to the fact that the pivotal teams concerned with restructuring

were inefficient and unqualified, and others related to the poor performance of the consultancy firms themselves. In addition, there were variations in the levels of conviction and interaction of the management and staff of the units subjected to restructuring, which influenced the preparation and readiness of these units for this operation. Moreover, as rebuilding and restructuring are linked to the other components of the program for modernizing the civil service, the slow pace of the implementation of restructuring procedures and policies had a negative effect on the progress of the other components.

The Ministry of Civil Service and Pensions (MCSP) completed the early retirement of 4,825 employees, bringing the total number of retired employees during the period 2003-2005 to 12,373, whereby the number of retired employees who received end of service compensations reached 64,757 by the end of 2005. In addition, the salaries of 1,172 employees with dual posts were deducted, while the number of such employees during the same period had reached 5,583. However, the Ministry was unable to begin the application of the system of employment ID cards with photos and a biological print, as the pilot operation was postponed to 2006, which together with the slow pace of the Civil Service Fund (CSF) procedures contributed to postponement of the realization of expected goals and outcomes.

The Cabinet decree n° 143 for 2005 was issued to organize new employment in the economic sector's and special cadre administrative units, based on transparency and clarity at all the stages of recruitment. Applicants for new employment continued to increase, reaching 104,885 of which 83% were males by the end of 2005, compared to 52,359 and 82,544 applicants by the end of 2003 and 2004 respectively. Employment procedures for 15,906 employees were completed in 2005 with priority always given to the education and health sectors, in addition to substituting 1,215 non-Yemeni teachers with Yemeni teachers, bringing the total substituted teachers to 5,515 during the period 2003-2005.

The government also adopted measures during the year aimed at raising the standards of living of employees of the state administrative system and public and joint sectors, foremost the endorsement of annual raises and settlements, the ratification of the wages and salaries strategy through issuance of law n° 43 for 2005 regarding employment, and the wages and salaries system. In accordance with the above mentioned law and the decrees issued by the Cabinet, 785,882 employees were transferred to the general wages and salaries structure, with the exclusion or deferred transfer of 60,417 employees for different reasons.

Strengthening Human Rights

The Ministry of Human Rights (MHR) issued its first national report in both Arabic and English on the situation of human rights in Yemen in 2004, and also published the first edition of the Yemeni Human Rights Magazine. The government also participated in the discussions on the third Yemeni report on the implementation of the Convention on the Rights of the Child before the International Committee for the Rights of the

Child, as well as the fourth Yemeni report on the implementation of the International Covenant on Civil and Political Rights before the Commission on Human Rights in Geneva in June 2005. At the beginning of December 2005, a conference was held in Sana'a on the rights of women in the Arab World to interpret the most prominent commitments adopted by the Sana'a Declaration into a plan of action leading to the empowerment of Arab women and the enhancement of their participation in public life.

The Ministry of Human Rights, in cooperation with UNICEF, founded a center for monitoring and reporting cases of child trafficking that reached 287 cases of which 233 cases were foiled and 154 cases were referred to the courts. During that same year 1,326 prisoners were released, of whom 226 were insolvent and had to complete their term of imprisonment, 170 prisoners had their dues paid off by benevolent persons, and 930 prisoners were released after serving half their term by the Presidential pardon issued on the occasion of the month of Ramadan.

Consolidating and Enhancing Democracy

The High Committee for Elections and Referendums concentrated its efforts in making preparations and providing requirements to revise and redraft voting lists and move constituencies, for the elections that are expected to take place at the beginning of 2006, in addition to examining the feasibility of introducing a GIS for elections. The Committee also conducted the studies to prepare and develop the various election guidelines, including a guideline for contesting votes, and a guideline for the system enabling political parties as well as popular, local and international bodies to follow the election process; and it laid down a strategy for spreading electoral awareness with the support of UNDP.

Local Authority

There were no developments in 2005 in institutional and administrative capacity building to consolidate and develop decentralization. The Decentralization Support Committee and the Technical Committee did not

Box 4-5: The Local Authority from the Point of View of the Poor

- Lack of understanding by the poor of the role and competences of local councils led to a high level of expectations and an extreme disappointment when those expectations are not fulfilled. *"He told us vote for me and I will get you water and electricity, and they don't give us anything"* (a poor woman from Hajjah), *"There is nothing but election promises"* (a poor man from Hadhramout).
- Many local councils are still unable to develop their communities because of administrative and financial problems and complications regarding the competences of the local authority. The community therefore covers its own needs, as in the past: *"The local council has no role. When men decide together, they undertake any service by themselves"*, (a poor woman from Shabwah).
- There were many positive actions taken by the local councils and felt by the poor, such as stabilizing natural gas prices and apprehending violators in the district of Kishr in Hajjah, supporting some poor families in Shabwah, monitoring services projects such as health units in Hajjah, constructing a school and a sewage project in Shabwah, and registering charity and relief donations for the SWF.

convene because of the lack of a clear plan of action. Moreover, the Ministry of Local Authority (MLA) was unable to finalize the implementation of recommendations of the local councils' first, second and third general conferences, nor to complete the legislative and organizational structure of local authority, including the elimination of contradictions between existing legislations and local authority law, as well not completing its discussions on the law governing financial resources and amendments to the law on zakat (the Islamic poor-dues). During the year, work continued on building and equipping the government's local authority complexes, as 8 complexes were handed over, while another 38 were under construction.

Again in 2005, the first phase of the training program was carried out with 1,586 participants from members of local councils, and members of tender committees in the governorates of Hadhramout, Lahaj, Abyan and Shabwah. However, the general situation had a strong impact on the performance of local councils as their meetings continued to be irregular, which is an important indicator for the exercise of the functions and authority assigned to them in accordance with the local authority law, and it reflects their ability to monitor and supervise the activities and performance of the executive organs in the administrative units. The rate of regularity of meetings for local councils was 36.8%, administrative organs 40.3% and executive offices 36.9%, compared to 46%, 37%, and 37% respectively in 2004.

Non-Governmental Organizations

The development and progress of the role of NGOs is a fundamental indicator in political development and in widening the base of participation in development. The state is highly concerned with enhancing the role of NGOs as active partners in achieving development and reducing poverty. There are 5,378 NGOs, 438 of which are women's organizations. The government, represented by the Ministry of Social Affairs and Labor (MSAL), gives monetary support consisting of 153 million Riyals to 259 organizations. More than 1,000 organizations were

Box 4-6: The Improvement of the Role of Non-Governmental Organizations (NGOs)

NGOs increased their participation in preparing the development plans and strategies and in identifying needs. The Civil Society Task Force participated in the activities for the identification of needs for achieving the MDGs by 2015. It laid down a list of needs from the civil society point of view for the environment, education and health sectors. Pioneer organizations contributed in laying down the Third Five Year Plan for Socio-Economic Development and Poverty Reduction 2006-2010, through their representation in the Policies Committee, and preparing the civil society component in the plan document.

established during the PRS years of which 41% are charitable organizations. Organizations concerned with human rights and the environment grew over the past period to a total of 127 and 85 respectively in 2005. They focused on disseminating awareness on issues related to the environment, human rights as well as legal and electoral knowledge. Some organizations embarked on innovative initiatives such as sponsoring the children of poor families, providing them with school uniforms and school bags, setting up literacy classes and encouraging women to enroll in education.

Despite their numerical expansion, a large number of the NGOs are not committed to the principles of volunteer work, and do not possess the minimum level of material and human capacities to undertake the role entrusted to them. Government agencies have begun to file cases against non-compliant organizations or ones whose licenses have expired, as a preliminary measure to applying the law to them.