Statement by Jiayi Zou, Executive Director for China  
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**Yemen: Country Assistance Strategy**

We support the Country Assistance Strategy (CAS) for Yemen for 2007-2009, as the CAS was formulated basically to complement the government’s second PRSP. It reflects a realistic country assistance approach, taking into account broad consultation with the Yemen authorities and civil societies, as well as lessons and experiences learned from the previous CAS. We salute the staff and country team for their devoted efforts and engagement for Yemen under difficult and complex situations. We encourage staff to continue their efforts to assist Yemen, one of the LICUS countries that demands Bank’s professional knowledge and expertise in fighting against poverty and achieving sustainable economic growth.

We are pleased to note that since reunification in 1990, Yemen has achieved stable economic growth in 1999 to 1995 through an economic reform program. However, Yemen still stays as a vulnerable country with low level of human and economic development, wide spread poverty, weak government capacity in delivering public services and prone to political instability. It is also worth noting that the despite the overall unsatisfactory feature of previous Bank assistance programs in Yemen, Bank assistance did achieve considerable success in social sectors and set some basic policy frameworks for reform. We believe that with the government’s commitment to reform and poverty reduction, coupled with Bank’s assistance and other donor support, Yemen will make marked progress in poverty reduction and economic development.

We agree with the CAS framework of $ 400 million IDA lending program for the CAS period, which demonstrates some increase on the basis of improved CPIA in the previous CAS period. We also support the four pillars that aim for the short to medium term development. Given the
current capacity of the public sectors, we support the Bank’s approach of focusing on non-lending activities, allowing more country ownership in the programs. Given the current country situation and IEG’s country assistance evaluation, we strongly recommend and support the Bank’s activities in the following areas:

1. **Government capacity building and governance upgrading**

   Weak government capacities in governance stay as a major reason for low level of public services and economic management. Among other cross-cutting themes, as indicated by the Yemen government, that capacity building in fiscal management for local authorities is required in order to achieve fiscal decentralization. We support WBI’s activities in Yemen. Training, analyzing and research work are most necessary at the current stage to better align the Bank strategy with the country situation. Enhanced engagement with the government through sufficient field presence will narrow the gap between strategy and implementation. In this regard, adequate and quality staff is important to ensure sufficient dialogue with government. We would appreciate it if staff can elaborate more on the situation of staffing in the country office.

2. **Water conservation and management**

   Limited water resources and groundwater depletion greatly hampers economic development and people’s living standard. The current agricultural structure uses 90% of groundwater, yet qat becomes a major source of water depletion. We support the Bank’s efforts in this difficult area. As water scarcity is a common problem in the MENA region, we would encourage the Bank to explore new techniques in tackling this challenge. Since the neighboring countries have agreed to engage Yemen in a regional integration process, we wonder whether experiences of better water conservation and management can be exchanged, so that Yemen can also share the benefits of effective technology and expertise in water management and development.

3. **Oil resource management and development of non-oil sectors**

   In the current structure of the economy, oil revenue registers at 27% of GDP and 90% of export. For historical reasons, despite the high oil prices, the oil prices are low in the domestic market
and government has to spend heavily on oil subsidies. As a common problem for most oil producing developing countries, it is important to manage the oil revenues so that the “Dutch Disease” phenomenon can be reduced or avoided and “oil curse” can be changed into “oil worth”. As Yemen’s oil resources reserves is on a declining trend, it is crucial to enhance oil resource management and develop non-oil sectors. Yemen has rich reserves of natural gas resources, and extraction has already begun. We wonder what is the Bank’s strategy in this regard. How can Bank help the government with oil revenue management? Can natural gas be a potential non-oil sector for Yemen? What will be the Bank’s involvement in this regard?

4. Population, youth and children policy

Yemen is one of the highest population growth countries in the world, with children and youth making up 76% of the total population. The incidence of poverty among children is 21% higher than adults. As emphasized in the Bank’s WDR2007, that empowering the young, enabling them with skills and to job opportunities and financial independence will have long-lasting implication to the global fight against poverty, therefore, this is a priority area that the Bank needs to tackle in cooperation with the government. We understand that in the previous CAS period, the Bank has achieved considerable progress in education and health sectors. We encourage more enhanced and continued Bank efforts in this area, with deepened engagement in the education and health sector, as well as family planning policy to rationalize the population structure.

5. Agricultural development and qat

Yemen’s agricultural sector generates 15% of GDP, but provides employment for 55% of the population. Qat is the major cash crop, but absorbs large amount of water and exerts negative impact to the society in terms of health. The Bank didn’t play an active role in this area before. Since the government has embarked on a campaign to raise the public awareness of the adverse effects of qat, the Bank can help in this approach. Further, given the less-yielding, water-depleting and densely-employed feature of the agricultural sector, we wonder whether the government has developed some strategy to deal with this sector and what will be the Bank’s role in this regard.
To conclude, we wish the Yemen authorities success in their efforts for poverty reduction and development and the implementation of the CAS. Again, we strongly endorse the Bank’s strategy to engage with vulnerable states regardless of country development status and geographical locations and would like to see the experiences in Yemen can be exemplified to other similar countries.