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THE LEAST DEVELOPED COUNTRIES**

REPUBLIC OF YEMEN

SUMMARY OF THE PRELIMINARY DRAFT FOR NATIONAL PROGRAMME OF ACTION

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## **I. Development policies in the 1990s**

### **(a) Introduction**

Since the unification of the south and the north in May 1990 the republic of Yemen has faced tremendous economic and financial difficulties resulting from several factors, economic, financial, political, social, constitutional and administrative. They resulted into the unity crisis of 1994 between the North and the South and the ensuing civil war. All these coincided with the existence of a volatile regional and international conditions that culminated into the Kuwaiti Crisis and the subsequent second Gulf War in 1990/1991. The Gulf crisis, in particular, brought a severe blow to Yemen's struggling economy at that time and a setback to the government's efforts to reorganize the new UNITED country development programmes as the crisis resulted in (a) the expulsion of about 750.000 Yemeni expatriate workers from the Gulf States, whose remittances had contributed significantly to the country's exchange revenues, (b) an interruption of external financial assistance from the Gulf States and other bilateral donors, (c) the disruption of regional trade relation, particularly the closure of borders to Yemeni traditional export markets. These are only a few of the main causes that prompted the macroeconomic imbalance during the post unification period of 1990-1994, including large fiscal deficits, high inflation rate, negative interest rates, lack of investment opportunities and a rapid depreciation of the Yemeni Rial in the parallel market.

### **(b) Reform Programme**

To respond to this unprecedented crisis, the Government declared in November 1994 its determination to undertake a vast programme of economic, financial and administrative reforms. These were finally included in a programme of comprehensive reforms that was launched in March 1995. The main objectives of the reform programme have been and continue to be the institutionalization of a structural change in the role and functions of the State through divesting the state's involvement in productive activities and the enhancing of the role of the private sector. This would indeed enable the state to focus on (i) establishing an enabling macro economic environment; (ii) institutionalizing a regulatory framework conducive to foreign and local investors; (iii) adopting and implementing a human resources development strategy enhancing Yemen's adaptability to a dynamic and modern economy and (iv) implementing national strategies in the area of health, education, power and other social services. Moreover it is hoped that the pursuit of such objectives would necessarily lead to providing a strong basis to build a diversified economy away from oil-dependency.

The initial stage of the economic reform took the form of an emergency cure in which the focus was on arresting the deterioration of the economy. By the end of 1995 the economy observed a 34 per cent reduction in the budget deficit and attained an 8.58 per cent real annual growth in GDP. By the end of 1996 the macroeconomic stabilization and structural transformation programmes, assisted by IMF, began to yield substantial positive results: the inflation rate declined to 12 per cent, the exchange rate stabilized, and the fiscal and balance of payment positions began to show signs of improvement.

The improvement continued under the Five-Year Plan 1996-2000, which was launched in December 1996. This plan was complementary to the 1995 programme of reform as it prioritized projects with socio-economic development goals. These included projects for the acceleration of the economic growth rate, employment generation, improvement of the education and health sectors and introduction of protective measures for environmental and water resources. By the end of 1997 the Government succeeded in stabilizing inflation to around 10% to 11%, securing steady increase in real GDP and reducing fiscal deficit to a low of 4.1%.

The plan emphasized the importance of the private sector and its role as engine of development. Priority was given to balance the roles of the public and private sectors in the economy, promote greater efficiency in the allocation and use of resources, improve quality of services and products, and accelerate private sector-led growth and investment by providing better business opportunities. Reciprocally, a major component of the 1994 reform programme prescribed a government withdrawal from most of the production and service activities through privatization of public enterprise. Despite the Government's efforts, the pace of privatization has not picked up completely. By the end of 1998 only 60 relatively small public enterprises have been privatized. The sale of bigger enterprises depends on the improvement of the investment climate.

### **(c) Specificity of the economy**

In 1997, three sectors; agriculture, forestry and fishing, mining and quarrying; and trade; contributed more than 62 percent of GDP. All these sectors have, since 1991, steadily grown while Government services, a traditionally strong contributor to GDP, declined from 14.9 in 1991 to 7.4 in 1997. The economy seems to be more and more dependent on oil export for income and foreign exchanges. Oil remains, however, vulnerable to fluctuations in the world market, which are beyond the country's control. It is therefore essential that the country embarks on a program of diversification of the country's economic structure if the present favorable development situation is to continue. Although the manufacturing sector accounted for only 8.0 per cent of GDP in 1997, its potential role of providing job opportunities, and thus making substantive indirect contribution to the economy, is apparent

Agriculture is a major sector employing over 50 per cent of the labor force. This sector has reached its maximum labor absorption capacity, which is now declining due to the crisis of water scarcity that is looming as an impending threat not only to the economic viability of the agricultural sector, but also to the food security of the rural population as well as the worsening unemployment situation. If growth is to be sustainable, it will depend on increasing the productivity of water as abstraction is declining and on developing modern techniques for managing range and terrace land. Strategies for containing demographic pressure will also be important, as will be equity and special focus on poorer farmers and women. The need to develop specific programmes for improving rainfed farming is also a key for ensuring long-term food security.

## **II. Social needs and sustainable development constraints**

Despite the relative progress made in the reform programme, Yemen's social indicators continue to provide an unsatisfactory profile of the living conditions of the country's population. Yemen's human Development Ranking for 1999 is 148 out of 174 countries, a slight improvement from the 1998 ranking of 151. This ranking is further corroborating by statistics which highlight the magnitude of the social development challenge to be addressed: the GDP per capita is \$ 320, the poverty rate is estimated to have increased to 25 per cent in 1998: unemployment is estimated to range between 25 and 35 per cent of the available work force.

The proportion of the population that has no access to basic social service is alarming: 60 per cent of the population has no access to safe water, 50 per cent has no access to health services while only 24 per cent has access to sanitation and 35 per cent to electricity. The rural population which represents 65 per cent of the total population is endowed with lower rate than that of the urban areas which also explains why 80 per cent of the poor live in rural areas.

The Social Safety Net created by the Government in an effort to mitigate the negative effects of the Economic Reform Programmes on the poor that accompanied the economic adjustment policies have proved insufficient. It is necessary to have a population policy that takes into consideration the negative implications of an uncontrolled population growth. The annual growth rate of 3.7 per cent is by all standards high and detrimental to any sustainable development strategy. The next ten years could make a difference in the development of the country if an adequate population policy is implemented.

Education and Health are two important sectors and their respective role is crucial in achieving a society characterized by a sustainable level of economic and human development to which the Government aspires. In the case of education, there is no doubt that improved education and training are critical to the development of the human sector. Raising the level of literacy and bringing women into the mainstream of economic and social activities will strengthen population programmes and policies. More emphasis on technical and vocational training, on the other hand, is essential to produce the labor skills that will provide the basis sustainable growth in the long run. The strategy for education and training, therefore, needs to focus on two major long term objectives: first, to provide comprehensive basic education for all boys and girls in all regions of the country; and second to improve the quality and focus of technical and higher education.

Despite the improvement observed during the past few years and the increasing budget allocation (18,6 of total public expenditure), education achievements are often unsatisfactory. A large number of boys and girls leave basic education without attaining functional literacy. Graduates from other educational streams are frequently ill prepared for the jobs they aspire to. Illiteracy level remains high and the internal efficiency of the education system is low with still high repetition and drop out rates at many different levels. The external efficiency of technical education and vocational training is low. Students have limited opportunity to acquire the technical skills the labor market demands and hence little incentive to enter or remain in technical or vocational education.

In the case of health, only 55 per cent of the population has access to health services. It is to be noted that the major causes of morbidity and mortality are communicable diseases that are, by definition, preventable. Infant mortality rates fell from 93 per 1000 live births in 1990 to 80 per 1000 in 1997, a decline of 14 per cent in seven years, indicating improvement in general health conditions in the country. During the same period, life expectancy increased from 57 to 58 years.

Despite these achievements, there remains a chronic shortage of public health services and a lack of essential drugs. The present health care system is old and poor. Lack of financing (3.2 per cent of public expenditure), poor organizational and managerial structures and inadequate training of health personnel have led to difficulties, particularly, in reaching rural population of which less than 30 percent has access to health care and health facilities.

The gender gap is another yemeni development problem: only 18 per cent of the female population is economically active. In terms of access to education and health services, the rate is less than 50 percent of that for the male population. This is another major impediment to achieving sustainable reduction in the country's high rate of population growth.

### **III. Prospect for Years 2000s**

The economic prospects for the years 2000s look better than those of the previous decade as the country settled its disruptive internal and external conflicts of the 1990s. The settlement of its border dispute with Saudi Arabia will certainly result in normalizing their relations and the return of several thousand workers to Saudi Arabia that will cool off the pressure on the labor market in Yemen while the economy will directly benefit from their remittance. The whole economy is expected to grow at a rate between 6 to 7 percent during the next few years. The reform programme agreed with IMF and the world bank will continue to form the basis for economic policy and it is perhaps an opportunity for the Government to link those programmes with the Programme of Action which should be a reference to the Government for the next ten years. The linkage should also engulf the five-year plan 2001-2005, which is also under preparation. This plan should constitute the core of the Programme of Action that should constitute a strategy of development rather than a list of project priorities for the next 10 years.

The conducive environment for long-term sustainable economic growth in Yemen requires improved human capital and enhanced natural resources development. Necessary action needs to be taken immediately to generate, maintain and manage the main components of the economy, including energy and water. Continued efforts are also called for to provide basic services to the population, such as improved education and better health care services. More than half of the population is under 15 years old and this age structure is unlikely to change substantially during the next decade. Thus the burden of feeding, educating, and employing this age group will be a major challenge the society and the Government alike. While the Government is faced with tremendous challenges to move on with structural adjustments as reflected in the reform programme, there is a need for more equitable distribution of benefits.

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