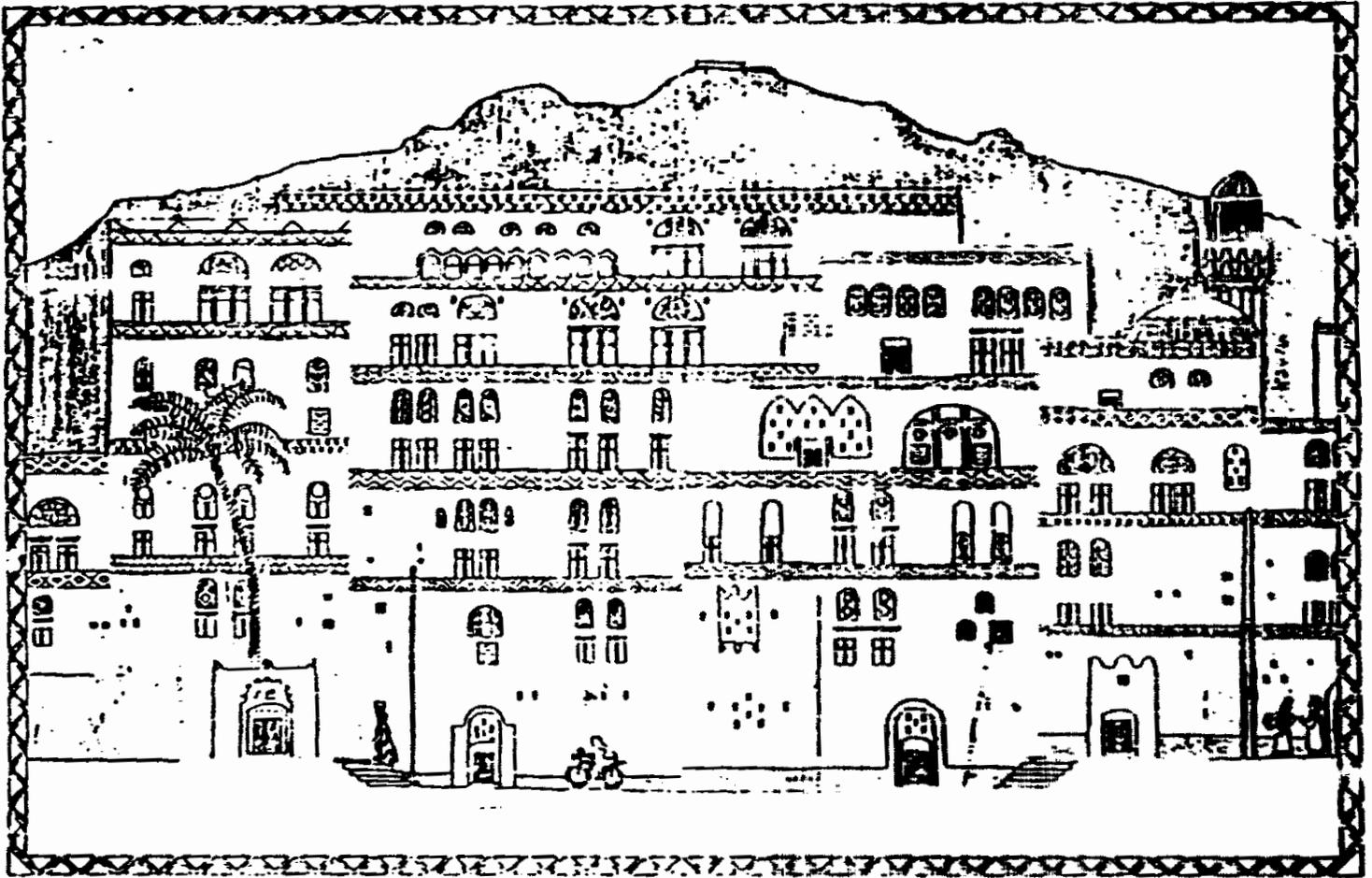


FY 1989

USAID/YEMEN ACTION PLAN



Sana'a
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BEST AVAILABLE

Action Plan
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EXECUTIVE SUMMARY

This Action Plan updates last year's submission, which laid the analytical foundation for a shift in USAID/Yemen's strategic emphases to the encouragement of domestic production and productivity growth, particularly in agriculture, and the targeting of USAID programs on major constraints to growth. In the Mission's view, the overall objectives outlined last year remain valid. Their appropriateness has been reinforced by preliminary findings and conclusions emanating from analytical agenda progress to date. The pursuit of the analytical agenda outlined last year will continue through this Action Plan period; the process of pursuing the agenda has helped to refine it.

USAID believes that the last year has been one of considerable progress, particularly in:

1) buying the Mission the only donor seat at the policy dialogue table with the Yemen Government;

2) refining tactics for accomplishing intermediate and longer-term objectives in agriculture, health, and water; and

3) strengthening the managerial capacity of the Mission to administer its project portfolio in a manner which supports established strategic objectives.

USAID welcomes the opportunity to discuss with AID/W progress over the last year and plans for the coming Action Plan period.

I. Introduction

This "customized Action Plan" is designed to:

- 1) outline the major changes occurring in the Yemeni economy over the past year;
- 2) report on analytical agenda progress and present for Program Week discussion some preliminary findings and conclusions;
- 3) present for discussion the Mission's current thinking on implementation of the strategy and tactics outlined last year;
- 4) assess progress and performance against the macro and sectoral objectives outlined previously;
- 5) identify resources required for pursuit of the strategy; and
- 6) identify major actions for the next year.

Because of the detail presented in last year's Action Plan, this submission seeks merely to update that document. Readers who find this Action Plan lacking in background are urged to read last year's submission.

II. Economic Prospects

A. Macroeconomic Update

Three major economic trends emerged over the past year: (1) Yemen's current account deficit worsened; (2) the Government budget deficit widened again, reversing earlier limits on the rate of expansion; and, most importantly, (3) limited quantities of oil began to flow through the Marib-Salif pipeline in December, 1987. Clearly, the imminence of oil exports provided the rationale for less austere economic management.

1. Trends in Remittances, Trade, Development Resource Flows

Officially recorded remittances continued to decline from \$643 million in 1986 to \$594 million. (All U.S. Dollar figures cited herein are annualized from three quarters of YARG Yemeni Rial (YR) data based upon weighted average YR = \$1 rates of 7.11, 9.12 and 10.0 for 1985, 1986, and 1987, respectively.) Yemen's trade deficit, which shrank from 1982 through 1986, worsened considerably during 1987. Total imports rose by 31%, while the YARG's share of total imports increased from 22% in 1986 to 58% in 1987, although this trend began to reverse itself again the the third quarter. This trend, plus a marked increase in foreign loan drawdowns, (\$115.3 million in 1986 to \$533.3 million in 1987), reflects oil development needs plus imports for the 25th Anniversary of the Revolution.

Yemen's balance of payments had improved sharply in 1986, with the current account deficit dropping to \$121 million, the capital account surplus rising to \$214 million, and a \$178 million balance of payments surplus. By September, 1987, the current account dipped to \$490 million deficit, and the balance of payments to \$28 million deficit.

2. Trends in Government Finance and Foreign Exchange

Government spending in 1987 appears to have far exceeded the YR 11.833 billion level outlined in the budget which, without military/security components and off-budget subventions to selected tribes, accounts for considerably less than actual expenditures. Preparations for the 25th Anniversary celebration boosted Government expenditures as well as traditional off-budget outlays, despite the YARG's mobilization of private sector resources to defray celebration costs. The 1987 deficit probably exceeded the 1986 official deficit of YR 4.5 billion by at least 35 percent, as donor aid did not materially increase during the year.

Despite austerity measures since 1985, the government deficit remains funded principally by net credit to government from the banking sector resulting in an increased money supply which has generated inflationary

pressure. Continued double-digit inflation and the stabilization of the current commercial bank rate of YR 9.75 = \$1 (against a Central Bank rate of YR 9 = \$1) imply that the agricultural and industrial sectors remain at a competitive disadvantage vis a vis imports, despite the rial's peg against a depreciating dollar. Many bankers still consider the rial overvalued, with the souq rate at YR 11.20 = \$1.

Yemen's net foreign assets fluctuated widely during 1987, but dwindled to \$462 million by the end of the third quarter, only 5 months of imports at 1987 levels. With the onset of oil exports, foreign assets are likely to grow over the longer term, if no massive import spree occurs.

3. Projected Impact of Oil

Most observers believe that the YARG will avoid a Government buying spree with oil revenues. Some concessions for military equipment modernization may be needed, although the more logical source is low-cost, easily re-schedulable USSR military loans. All sources believe a hefty government pay raise is likely, as YARG salaries have not been adjusted for three years of double-digit inflation. Government intends to release foreign exchange for key inputs for agriculture and industry, but will probably keep foreign exchange management and import licensing regimes in place for a while, although commercial banks will no longer be required to sell foreign exchange to the Central Bank.

Estimates of \$700 million public sector income from oil exports in the first year were based on 200,000 bbl/day production and a price of \$18 a barrel. Initial output is 135,000-150,000 bbl/day. In December, the Ministry of Oil and Mineral Resources concluded sales agreement with Mobil (U.S.), Agip (Italy) and Yukong (Korea) for deliveries of 1.2 million barrels of the YARG's crude entitlement at market-related prices. From these and other agreements, the government can expect to earn around \$500 million in 1988. If prices warrant production increases, receipts will rise steadily thereafter. Although official reserves are now estimated at only 500 million bbl. - a 10-year supply at

135,000 bbl/day - a number of reliable sources have reported actual reserves estimated at one billion bbl or more, which could significantly lengthen the pay-out period.

4. Investment Priorities Under the Third Five Year Plan (TFYP)

The TFYP, approved by the Cabinet in September, 1987, includes the following investment priorities quoted from the YARG's presentation in support of the UNDP Fourth Country Program:

"The program of economic austerity, initiated during the Second Plan, will be extended to the Third Five-Year Plan (1988-1992). The strategy is to: a) mobilize private and public resources and foreign investment to increase productivity in the agricultural, energy and manufacturing sectors; (b) decrease imports and promote self-sufficiency by concentrated efforts to identify and exploit national natural resources; and (c) develop human resources at all levels. The Government has set a medium GDP growth scenario of 8.1 per cent per annum for the Third Plan.

Agriculture has been given the top priority in the Plan, with special emphasis on production. Incentives will be provided to encourage cash crops, agro-business, livestock production and fisheries. The surplus is to be exported. New integrated agriculture projects, especially in the northern and eastern regions, will bring new lands under the plow. Research will be promoted to define better methods of production and animal husbandry. As access to water is a major constraint on agricultural improvement, small dams will be built and low-cost irrigation methods will be introduced to improve the distribution of water. The aim is to generate a 3 percent growth rate in the sector.

Water, which is scarce and vital to all aspects of development in Yemen, will see renewed concentration in the Third Plan. Rural

water supply, with the help of local co-operative councils, will be expanded to cover 60 percent of the population. Under the auspices of the High Council for Water, a secretariat will be established to help devise a National Water Management Plan, which will include water laws, policies and implementation plans.

In the energy sector, high priority is given to petroleum, with continued exploration of energy and mineral resources. The Government will promote the exploitation of gas and liquid propane gas found in commercial quantities in the Ma'rib oil fields to generate electricity for running large industries like the cement industry, and for domestic consumption. Small-scale downstream, petroleum-related industries are also contemplated.

In the industrial sector, the Plan calls for a major effort to stimulate private investment in manufacturing industries through a variety of tax and other incentives. Main emphasis is placed on developing industries based on locally available raw materials, achieving a better balance between capital goods and consumer goods production as a basis for future industrial expansion, and improving the efficiency of existing industries. The generation of investment on the scale required will obviously depend upon a number of factors outside the Government's control, but performance of the manufacturing sector during the current Plan is encouraging.

A fifth priority area is human resources development. Major emphasis is given to the expansion of teacher training to replace the large number of expensive expatriates on which Yemen is overly dependent, and to vocational and technical training to build up the skilled work force required for sustained development. Primary health-care services will be expanded significantly with the goal of covering 50 percent of the population by 1995. Finally, to ensure more effective direction of the development process, high priority is placed on strengthening the government agencies and institutions responsible for the planning and

management of major sectors and enterprises, through expanded training of staff and extensive civil service reform."

5. Government Economic Management and Reform

Late 1986 and early 1987 probably represented the nadir of the Yemeni economy for the 1980s. Austerity had taken its toll in limited Government capability to provide services, limited capacity to import, and unsatisfied demand on the part of virtually all groups in the society. The small and weary group of YARG economic policy-makers had to be questioning whether the oil would ever flow, and how they could stretch dwindling foreign exchange resources until it did. At this point, the IMF and IBRD, sensing weakness, moved in for the kill, offering a Structural Adjustment Facility (SAF) of \$60 million over a three-year period in return for YARG agreement to increase interest rates, further devalue the battered rial, and initiate a program of increased revenue generation, including new taxes, service fees and improved tax collection measures. USAID's Action Plan of a year ago posited a scenario whereby increased P.L. 480 Title I levels would increase the structural adjustment "carrot".

Discussions with YARG and IBRD officials who attended these discussions reveal several factors in the ultimate debacle. Perhaps the price tag was too low. Perhaps the IMF and the IBRD made tactical mistakes in presentation, emphasizing "sticks" when more discussion of "carrots" was needed. Whatever the reasons, the YARG concluded it could not afford to accept conditionality. The IMF/IBRD team left Sana'a with empty hands. More recent YARG/IMF/IBRD discussions have focused on project content and not the policy agenda. USAID believes that the IMF and IBRD are now unprepared to rejuvenate policy dialogue attempts.

Shortly after the failed SAF discussions, USAID sought to incorporate a portion of its policy dialogue/analytical agenda into self-help measures for the second tranche of PY 87 P.L. 480, Title I. During sensitive discussions USAID and the YARG came to understand each other's

positions. The agreement was signed, and USAID remains the only donor holding the policy dialogue card in Yemen.

The Mission feels that its success in buying a seat at the dialogue table reflects two factors. First, the Yemenis retain a fascination for U.S. economic prowess, although this does not always translate into easy markets for U.S. products. Second, and more importantly, the Mission has been careful to abjure conditionality per se, but has highlighted the congruence of U.S. and YARG objectives, as outlined in the TFYP, our ability to bring analytical resources to bear on tough development issues, and our willingness to dialogue with confidentiality. USAID adopted this approach after not only analyzing the YARG response to the SAP discussions but also considering carefully the real political concerns of a government still in the early stages of nation-building.

Yemen's real development began only in the 1970s concurrent with the oil boom in the Gulf. High remittances and aid fueled trade. Trade fueled profits of the traditional merchant class, capitalized local industries, and strengthened the influence of a well-established private sector. When inflows decreased in the early 1980s, the government replaced its laissez faire stance with more proactive policy initiatives designed to better marshal dwindling foreign exchange resources. This transition was effected despite jockeying by the private sector to protect its interests while controls were being imposed. The resulting YARG policies were fragmented, and occasionally inconsistent.

Complicating the process further is the YARG's bureaucratic inability to administer established policies. The YARG has not tried to influence economic activity for very long, and its institutional resources for public sector administration and management are constrained by lack of qualified manpower. Moreover, the Yemeni public feels insecure about the quality of economic management, and accurately perceives that the established trading, farming and industry families influence policy at least as much as the military, the security services and the tribes. Moreover, the private sector is itself confused regarding which policies are beneficial to trading activities, and which are supportive of

productive activities. For example, while an overvalued rial aids traders, it hampers investors. Thus investors with mixed portfolios may favor different policies for different purposes at different times.

With no economic consensus emerging in a nation forged in the tribal tradition of consensus-building, with growing YARG presence in the countryside, but little ability to enforce its will, with a conservative Islamic element sharing in decision-making, and with a growing and increasingly sophisticated population demanding more imports and services, the YARG's economic policy-makers find themselves buffeted in all directions, incapable of pursuing an economic path that accommodates all interest groups, and afraid to place the blame for tough economic decisions on external pressure, a recipe for political oblivion in this still xenophobic society.

B. Policy Analysis and Dialogue

1. Issues

The policy issues to be faced are those the IMF/IBRD team identified: an overvalued rial, negative interest rates, and a budget deficit financed through money creation rather than revenue generation. To this list can be added the YARG's confusion regarding the benefits of import-substitution or export-led growth. This confusion grows undoubtedly from perceptions of high domestic demand and Yemen's historically weak export base. Absent export growth, however, Yemen will need to rely on oil, remittances and grant aid for foreign exchange, and will need carefully selected allocative measures to marshal its resources.

YARG officials are sensitive to these issues, but do not fully understand their implications and have yet to find a way to package and sell such reforms in the political context. Repeatedly, YARG officials emphasize, "Give us good ideas based upon solid analysis, and we'll implement them without conditionality." The burden then falls on the Mission to understand the Yemeni context and to be an effective analyst. This is difficult given the opaque nature of Yemeni politics to Western eyes.

Thus, USAID believes that, to the extent that the policy dialogue fire can be lit among Yemenis themselves, it can be more successful than Western prescriptions for economic action.

2. Analytical Agenda Progress

To position ourselves better for policy dialogue, USAID proposed in last year's Action Plan to conduct an analytical agenda which would inform the Mission on the variables at issue, as well as provide solid analyses for YARG consideration. This analytical agenda remains "work in progress". Some major reports are in preparation and others are just starting. After last year's Action Plan review, the Mission developed a small (\$4 million) new project, Technical Services and Feasibility Studies (TSFS) (279-0083), to bolster our policy dialogue capability and assist the YARG in implementation of its TPYP. The YARG itself has agreed to provide a minimum of \$1 million in P.L. 480 generations for local support costs. Annual availabilities for TSFS, coupled with small but critical amounts from Regional Project Development and Support and various other central and regional projects, will enable the Mission to finance the planned agenda in a timely fashion. As can be seen from Table I, the process of pursuing the analytical agenda has helped to refine it. While some purely macroeconomic work remains, various consultants employed by the Mission to date have concluded that many areas identified for analysis can best be addressed in a sectoral context, particularly as existing policies affect the success or failure of TPYP objectives.

3. Findings and Conclusions to Date; Work Scheduled Over Next Action Plan Period

Although there are few findings and conclusions to report now, USAID's work to date has highlighted the primacy of the macroeconomic and political economy issues previously discussed and given the Mission a better understanding of the enormity, as well as the dynamics, of the tasks ahead. Work scheduled over the next Action Plan period will be based on the findings and conclusions of current agenda activities and

TABLE 1 - ANALYTICAL AGENDA

ANALYTICAL AGENDA AS PER 1987 ACTION PLAN	CURRENT ANALYTICAL AGENDA	STATUS	COST TO MISSION
A. MACROECONOMIC			
1. Labor markets and remittances	1. Labor markets, migration, remittances, savings/investment	- Part of 1988 TSFS workshop to be carried out in coordination with the World Bank's regional migration survey. Start-up, July 1988.	\$90,000
2. Financial markets reconnaissance	2. Financial markets survey	- Field work completed; final report under discussion. Funded as part of PRE's "Financial Markets" project.	\$-0-
3. Flow-of-funds model	3. Policy framework analysis, including computer model of the YAR economy, with Ag. sector submodel	- Phase I completed; Phase II, incl. computer model, to start June, 1988. Funded through Mission buy-ins into PRE's "PEDS" project.	\$46,000
4. Computer model: Synthesis of investment and financial variables			
B. AGRICULTURE			
1. Fertilizer Review	1. Fertilizer Study	- Field work completed. Final report expected in April. Funded through ADSP/CORF (052.11).	\$75,000
2. Prices/incentives/interventions in input/commodity markets	2. Agricultural prices and incentives study, including exchange rate effects	- Part of 1988 TSFS work plan; adaptation of analysis done by the World Bank in Morocco. S.O.W. to be prepared Spring, '88.	\$75,000
3. Incentive/disincentive effect of exchange rate on agricultural production			
4. Credit needs	3. Agricultural credit survey	- Part of 1988 TSFS work plan; work to be carried out in cooperation with Colorado State University. Start-up, July 1988.	\$40,000

5. Environmental degradation

- 4. Assessment of the Agricultural Research Authority by ISMAR. \$-7-
 - 5. Soil/Water Research with Ag Research Authority. \$25,000
 - 6. Eastern Province: Irrigation demo and training center design \$20,000
 - 7. Agribusiness Survey \$40,000
- 7.
- 1. RAPID update \$-0-
 - 2. KAP Survey-Taiz region \$-0-
 - 3. Taiz Regional RAPID \$-0-
 - 4. Survey of existing health care usage and practices \$50,000
 - 5. Impact assessment of potable water projects \$80,000

C. HEALTH, POP., WATER

1. RAPID update

2. Private sector Health options

- Part of longer term agenda
- Approved for FY 88 PDS funding. start-up, August 1988.
- Part of 1988 TSFS work plan; Start-up, May 1988.
- Part of 1988 TSFS work plan; to be coordinated with IBRD/Abu Dhabi Eastern Provinces program using P.L. 480 generations. Start-up late 1988.
- Field work completed; final report expected April. Funded with Regional Private Sector funds buy-in to SGT ARIES project.
- Funded out of Regional Population Project; work in progress.
- To commence Summer, 1988 with Regional Pop funds.
- Follow-on to national RAPID. To start late 1988 with Regional Pop funds.
- Part of 1988 TSFS work plan; start-up, July 1988.
- Phase I fieldwork completed with FY 87 PDS. Phase II approved for partial funding (\$50,000) from FY 88 PDS. Phase II start-up, August 1988.

the YARG's receptivity to recommendations flowing from these. The YARG's expressed need for solid analytical work should provide an opportunity to buy analytical credibility in the short-term and thus advance our policy dialogue. It would be naive, however, to expect that over this Action Plan period USAID can reasonably hope to accomplish more than strengthening its place at the dialogue table.

4. Constraints, Opportunities, Prognosis

USAID's lonely position at the dialogue table is both a curse and a blessing. We are, however, loathe to seek renewed efforts from the multilaterals, who have been heavy-handed in a delicate situation. Continuing dialogue with other Western bilateral donors, especially the British, the Dutch, and the Germans, may promote more effective project activities, but will not produce additional dialogue partners. Over the longer term, the success of our dialogue will depend upon our ability to provide quality analyses, and to maintain an amicus curiae position vis-a-vis Yemen's internal deliberations.

C. Private Sector Opportunities

The public versus private equation in Yemen is part and parcel of the political economy dimension to policy dialogue. Sustained private sector growth cannot be effected without movement on the policy issues outlined above. Lacking clearer public and private sector role definition, and absent policy initiatives facilitating financial market development and broadening Yemen's foreign exchange earnings base, the Yemeni private sector can only develop so far, and will be unable to make the leap to serving as the engine for future growth. Yet one consultant employed by the Mission for analytical agenda work suggested (with tongue only partially in cheek) that in Yemen AID may need to support parastatal growth to encourage competition and break up monopolies or oligopolies of the "old guard" private sector. Needless to say, the Mission is not seriously considering this path. It has, however, incorporated into its

political economy perspective the prospect that sensible macroeconomic policy changes may displease the powerful private sector from a microeconomic perspective.

Despite these concerns, USAID is developing interrelated interventions to foster open-market-led private sector growth, particularly in the strategically important agribusiness sector. Achieving the Mission's production and productivity objectives will require not only policy reform, but also improvements in market efficiency and structure, and the technical and managerial performance of private sector institutions, e.g. the Chambers of Commerce, and individual private sector firms.

Currently, market efficiency is being addressed in four ways:

- a financial markets study, initiated late in 1987 with the Central Bank, as part of the Mission's analytical agenda, is identifying interventions in the policy arena and in development of financial institutions;
- an agribusiness strategy study is currently underway to identify interventions for improvement of markets in this sector;
- USAID is discussing with Sana'a University's Faculty of Economics and Commerce the possibility of University-sponsored (but AID-funded) seminars on economic policy issues, e.g., trade liberalization; and
- USAID staff are seizing every opportunity to raise Yemeni awareness of and receptivity to privatization initiatives. This campaign involves provision of privatization success stories to individuals having an impact on Yemeni decision-making and encouragement of privatization in specific instances relating to our program portfolio. (Mission activities in this area are more fully discussed in the Agriculture section). USAID will also encourage attendance of Yemeni public and private sector leaders at a privatization conference to be held in Egypt later this year.

Possible ways to strengthen representative private sector institutions are also under study:

-- USAID is cooperating with the Federation of Yemeni Chambers of Commerce and Industry and its individual chambers to prepare a proposal to the United States Chamber of Commerce's Center for International Private Enterprise (CIPE) for provision of technical assistance to the Yemeni chambers, focusing on organizational development, policy dialogue with Government, and membership services;

-- USAID and the Embassy Economic/Commercial Section are cooperating in promoting a series of trade and investment missions between the U.S. and Yemen, with a focus on agribusiness;

-- Individual private sector enterprises will be strengthened through a short-term private sector training program, a technology transfer institute based at the University, continuation of the IESC volunteer program, and interventions to be identified by the agribusiness study.

In summary, the Mission's private sector program addresses three different levels: policy, institutions, and individual entrepreneurs. Over the next two years, this approach is expected to lead to the formulation of an opportunities-and-constraints matrix that will in turn be one basis for a formal private sector strategy.

III. Donor Coordination

Donor coordination is, by definition, almost inextricably intertwined with the following USAID assessment of its progress toward established objectives. Because of the scarcity and unreliability of Yemen data, all donors, including the multilaterals, rely on the same data to design projects and establish assistance strategies. Over the past 18 months more donor coordination has developed, tacitly, and occasionally openly, encouraged by the YARG. Although it is early, there are encouraging signs that the YARG is rejecting its traditional "divide and conquer"

posture in favor of positive coordination to maximize the effectiveness of donor resources in support of its strategic development goals. This can only be good news for Yemeni development over the longer term.

As mentioned last year, the bilateral donors almost universally shy away from policy issues, not only because of their sensitivity, but also because none feels capable of conducting the analysis required. They appear willing, however, to incorporate our major analytical findings in their own program assessments. Nevertheless, it is unlikely that a strong donor consensus will emerge on policy matters. The Arab donors, more accessible of late, have paramount political objectives in Yemen which they pursue through capital projects and budget support. Their large programs are unlikely to include meddling in Yemeni economic policy. The Dutch, having adopted Yemen as one of their target assistance countries, have two major emphases, basic human needs and promotion of Dutch commercial interests, at which they are irritatingly successful. The Germans and the French, having grown wary of technical assistance efforts in the Yemeni hinterlands, generally limit themselves to small training programs, commodity drops, and promotion of commercial relationships. The British have good agricultural activities in the Central Highlands, support participant training and, through the British Council, play a major role in English language training. The Japanese are, as always, the Japanese, with a penchant for turnkey projects and a seemingly impenetrable lock on the Yemeni consumer goods market and slices of the industrial market. Finally, the U.N. agencies are increasingly focusing their programs on a narrower selection of TFYP priorities. They are occasionally sympathetic to policy concerns, but are generally vulnerable to both Yemeni and U.N. political winds. Major donor involvement in USAID's strategic focal areas is shown in Table II.

IV. USAID Program Impact, Performance Indicators

The following discussion is keyed to the long-term and intermediate objectives outlined in last year's Action Plan as benchmarks in implementation of the Mission's domestic production and productivity strategy with emphasis on agriculture. Where the language of specific

TABLE II - SUMMARY OF MAJOR WORK

ACTIVITIES IN AREAS OF MAJOR EMPHASIS

MAJOR EFFORTS	IND	U.S. IND	1972	REGUL. ASSIST.	U.S. AGENCIES	IND	FEED	EASTERN P/LAC
AGRICULTURE								
General	1	1	1	1			1	1
Assist. to IND	1				1			
Horticulture		1	1				1	
Poultry					1			
Ag. Education	1					1		
Development	1	1		1	1			
Ag. Research	1	1					1	
HEALTH/POP.								
General	1			1		1		1
Primary H. Care			1					
Health Education				1	1			
Family Plan.					1			
EDUCATION								
General			1		1	1		1
Basic Education	1							
Ext. Training		1	1	1		1		1
WATER								
General			1					
Policy					1			
Studies				1				1
Feasibility Study	1		1	1	1			
GENERAL								
Economic	1							
Private Sector	1	1	1	1	1			
WFO		1		1	1			
WFI			1	1			1	

objectives has been revised from last year's Action Plan, the new language is underlined.

A. Macroeconomic:

1. Long-term Objective:

-- To assist the YARG to increase domestic production and productivity, and thus increase domestically-generated income, through reliance on market forces and the private sector.

2. Intermediate Objectives:

-- To use food aid to lessen the impact of the current foreign exchange shortage and budgetary pinch, financing grain imports on a concessional basis to meet urban demand while freeing scarce FX for growth-oriented imports and investments.

-- To discourage the YARG from reliance on distorted economic policies, e.g., exchange rate and import controls and allocations, and artificial limitations on the cost of capital.

-- To obtain a broader and deeper understanding of factors at work in the Yemeni economy with the objective of tracking and discouraging trends toward greater government control with the advent of oil revenues.

3. Progress and Performance:

Obviously, one year is insufficient time in which to measure progress against the long-range objective. One indicator of increased domestically-generated production and income, however, may be Yemen's growth in exports which in 1985 amounted to a measly \$8.5 million (1985 weighted average of 7.11 YR = \$1). By the end of 1986, exports had grown to \$16.6 million (1986 weighted average of 9.12 YR = \$1), and 1987 data

indicate that Yemen should maintain this upward trend. While the gross totals are hardly amazing, the trend is clearly encouraging, particularly as increased exports are being registered in non-traditional agricultural commodities.

One of the stated YARG objectives in its 1987 austerity budget was to mobilize as much concessional financing as possible for commodity imports in order to make foreign exchange available for other strategic requirements. USAID was able to muster \$15 million in P.L. 480 wheat and rice, while gaining YARG agreement to a number of important self-help measures, including the aforementioned analytical agenda and movement toward privatization measures in the poultry and horticultural subsectors.

USAID cannot claim, only one year later, to have discouraged the YARG from anything more macro than reducing the Ministry of Agriculture's presence in productive activities. The Mission believes, however, that it can claim credit for convincing the YARG of the need for development and initiation of a mutually agreeable analytical agenda and for taking its place at the policy dialogue table.

Over the next year, USAID expects to consolidate its policy dialogue position as it pursues and discusses its analytical agenda. The Mission is also considering initiation of a targeted economics-oriented participant training program as part of the pending amendment to Development Training III. This should lay the foundation for longer-term dialogue by building Yemen's own cadre of economic literates with exposure to market-oriented economic principles.

B. Agriculture:

1. Long-term Objective:

-- To support the YARG's TFYP goal of a 3% annual increase in agricultural production, consisting of: cereals, 8.8%, fruits and vegetables, 31.4%, commercial crops, 24% and livestock and fish, 12.9%.

2. Intermediate Objectives:

-- Develop a more comprehensive informational base and understanding of the policy and input limitations which constrain productivity and inhibit rural income growth.

-- Strengthen Yemen's basic agricultural research capability, and as a result:

-- Develop and transfer appropriate technical practices to small and medium-scale farmers and, as appropriate, to large commercial growers in targeted areas of growth/potential:

-- Increase the efficiency of on-farm water use; and

-- Increase access to critical agricultural inputs, including fertilizer, seeds, equipment, pesticides and credit.

-- Encourage a re-examination of the roles and responsibilities of key institutions in the agriculture sector, e.g., public and private organizations and firms.

-- Encourage and provide leadership for donor coordination in developing strong analytical work and conducting policy dialogue on sectoral requirements.

3. Progress and Performance:

It is too early to tell whether or not any appreciable increase in agricultural production occurred in the last year. Final 1987 data have not yet emerged from the Ministry of Agriculture and Fisheries (MAF), and, in any event, the Mission has only begun to re-orient its agricultural program toward production and productivity emphases. Nevertheless, the Mission notes that the final version of the TFYP adopted the 3% annual growth target for the agriculture sector which the

Mission last year felt to be a more reasonable figure than the 3.5% proposed by the MAP.

Mission thinking on agriculture sector tactics is beginning to crystallize around the design of a medium to longer term effort focused on constraints to production, with an emphasis on input requirements. Key in this process are two studies now nearing completion. A fertilizer study is determining: 1) why fertilizer utilization in Yemen is so low, 2) how much and what types of fertilizer need to be imported to support the growth projections of the TFYP, 3) realistic import levels for the years to come, and 4) other constraints to fertilizer importation, distribution, and utilization. A study of private sector manufacturers and suppliers of irrigation equipment is determining if adequate supplies and types of irrigation equipment are available to support increased production and increased efficiency of water use, and what additional supplies may be required. Recommendations from these studies should lead to increased availability of appropriate fertilizers and irrigation equipment and, ultimately, increased production, by providing ammunition for the MAP and private sector to obtain increased foreign exchange allocations and import licensing for these strategic inputs.

Recognizing that continued MAP involvement in productive activities stifles private sector potential, the Mission over the last year undertook two privatization efforts. The first, encouraging the MAP to sell or lease its pullet rearing facilities, has been partially successful as these facilities are now leased by a parastatal poultry firm which operates at a profit. Most importantly, the MAP is no longer in the business of managing or operating poultry production, which frees MAP resources for more appropriate Ministry functions. In a second privatization activity, this in the horticulture sector, USAID persuaded the MAP to more than double the price of seedlings, laying the foundation for private sector entry into this expanding market. A study of 22 nurseries owned and managed by the MAP identified those which merit upgrading with P.L. 480 resources for eventual sale to the private sector, with the remaining nurseries to be eliminated. The most

important accomplishment in the horticulture subsector, however, has been the total change in the MAP's attitude toward private sector nursery production. Whereas before the MAP was committed to doing its own nursery operations, it is now committed to encouraging private sector growth. As a result, the USAID Horticulture Subproject is now directly assisting the private sector to undertake this important contribution to Yemen's increased horticultural production.

USAID has contributed to the development of an improved agricultural data base by supporting the MAP's conduct of a broad-based agricultural census and by conducting an in-depth cost of production survey on wheat grown in Yemen. The Mission, under the Horticulture Subproject, is developing appropriate technologies for deciduous and tropical fruit tree production and propagation and the use of integrated pest management techniques for increased pest control. Implementation of these techniques will support private sector nurseries and enhanced indigenous production capability. USAID is also introducing plastic greenhouses for demonstrating ways of extending the season for warm season vegetables. Training programs and field demonstrations are facilitating the dissemination of these appropriate technologies. An extensive deciduous fruit tree manual was developed and will serve a wide array of governmental and private sector horticulturalists. The Mission will shortly support a seminar on fruit production in Yemen which will include as a main topic clarification of the roles of the public and private sectors. This type of activity, coupled with continued policy dialogue on the need for privatization of agricultural production activities, should highlight the need for better definition of public and private roles in achieving development goals. The Mission has taken the lead in donor coordination in certain technical areas such as locust control and in policy analysis and dialogue, USAID is using both direct discussions and indirect approaches. Improvement of the data base will allow more effective policies to be developed and effected. Various microeconomic studies done as part of the Agricultural Development Support Program (ADSP) and the Mission analytical agenda will feed better analyses and data to key decision makers. In particular, the agricultural prices and incentives study planned under TSFS should zero

in on the impact of the YARG's macro-policies on growth potential in the agricultural sector.

As mentioned earlier, the Mission is now conceptualizing an input/constraint-oriented effort which would serially incorporate efforts to address production constraints in subsectors with significant production potential. The first program module of this new effort will be the Irrigated Farm Practices project which will incorporate training and demonstration stations, field plots, media extension and encouragement of technical linkages between private sector input suppliers and farmers. Although it is too early to say definitely, a fertilizer module would most likely be the second input addressed under this scheme, with other modules to follow in future years for applied research, seeds and possibly credit.

In the Mission's view, this new production oriented program should be broken out of the current ADSP program and given a life of its own with new public and private counterpart organizations. Thus, with the completion of the Horticulture Subproject in FY 1989, the ADSP will be clearly focused on reducing the institutional and human resource constraints to agriculture sector growth, while the new project will take up more economic and farm-level concerns. Obviously, there are a number of subsidiary issues which will need to be addressed. Because of the urgency in finalizing design and implementing the Irrigated Farm Practices piece, the Mission plans to use this design process to establish the broad brush strokes of the overall program, but will defer detailed planning on subsequent components until additional analyses are completed, recommendations absorbed, and the resource availability picture clearer.

Over the next year, the Mission's major tasks in agriculture will be to:

- 1) continue to expand the data base and the YARG's capacity for analysis;
- 2) complete design of the Irrigated Farm Practices program with an eye toward adapting its structure for additional production-related components;
- 3) complete analytical studies now underway and undertake new

assessments of the impact of current policies on prospects for agricultural growth; 4) seek greater donor coordination in agriculture in order to maximize the impact of our existing resources; and 5) pursue creative uses of P.L. 480 funds to support production objectives.

C. Education and Training

1. Long-term Objectives:

-- Improve the YARG's capacity to analyze labor force needs and make informed decisions about the allocation of training resources.

-- Build a cadre of professionals in key development fields (notably agriculture and education) and enhance the capacity of Yemeni institutions to train professionals in these fields.

-- Increase the efficiency and effectiveness of primary education and, thereby, expand access to basic education, providing a broader foundation for production and productivity increases. (This objective will be measured against specific benchmarks outlined in project documents and the FY 1988 Action Plan.)

2. Intermediate Objectives:

-- Expand the data base and the YARG's capacity for analysis and policy dialogue on education and training issues.

-- Encourage organizational development that enhances the government's ability to utilize effectively resources available for education and development.

3. Progress and Performance

During 1987 and early 1988, USAID made progress in two of its long-term objectives, and set the stage for progress in the third. Under a buy-in to S&T's Improving the Efficiency of Education Systems (IEES)

project, USAID is providing assistance to the Ministry of Civil Service and Administrative Reform (MOCSAR) to conduct a manpower planning and training needs assessment across public sector agencies and ministries. During FY 1988, the MOCSAR study will be completed, computers will be installed at MOCSAR and staff will be trained to conduct manpower needs assessments. In addition, the design of a private sector training program melding Sana'a University and other training resources with private sector requirements is beginning to sketch out a strategy for identifying longer-term skills needed for private sector growth.

USAID's on-going efforts to build a cadre of development professionals continue to prosper in the face of almost overwhelming demand for scholarships at all levels. As of December, 1987, a total of 448 students had graduated from U.S. and third country universities in development fields and another 320 were in training under all AID-financed projects. In addition, USAID has continued to mount specialized short-term training efforts for target groups, including 150 Ministry of Education (MOE) officials sent for management training at the Jordan Institute of Public Administration, and approximately 20 Ministry of Oil and Mineral Resources employees trained in petroleum engineering.

Although USAID has not yet made progress in increasing the efficiency of basic education, 1987 saw the authorization and signing of the Education Development Support Project (EDSP), and the arrival of a Resident Technical Advisor provided under the IEES project to assist the MOE in establishing management information systems (MISs). In addition, under the centrally funded Basic Research and Implementation in Developing Education Systems (BRIDGES) project, USAID is now looking at factors that account for differences in quality in primary schools, and possible actions by the MOE which could improve educational quality in ways consistent with priorities established in the TFYP.

The development of MISs for the MOE is required to enable measurement of the accomplishments of the EDSP in improving the efficiency of primary education, and to strengthen the YARG's educational policy dialogue

capability. Moreover, with organizational assessments underway for the Ministry of Oil and Mineral Resources (MOMR), MOSCAR and MOE, and plans to train MOCSAR staff to perform additional assessments, USAID believes it has made a good start on achieving both intermediate objectives. The MOE's enhanced analytical capability is already causing a shuffle of teacher assignments to achieve more efficient deployment. Over time, further development of the MOE's analytical skills will enable it to address more difficult issues of curriculum and educational finance.

Over the next year the Mission's major tasks in education and training will be to: 1) develop and submit an amendment to the Development Training II project, incorporating findings and recommendations of the cross-sectoral participant training evaluation; this amendment will bridge the period until Development Training IV can be designed employing the labor force analysis now beginning under the current project; 2) consolidate implementation arrangements for the EDSP, including selection of the technical assistance contractor and coordination of central project inputs; and 3) develop MIS systems and capacity within MOCSAR and the MOE to foster planning and tracking of project benchmarks.

D. Health and Population:

1. Long-term Objectives:

-- Develop a framework for significantly reducing infant and child mortality rates to the Agency's "Blueprint" goals through the establishment of replicable model primary health care programs.

-- Increase YARG awareness of the implications of rapid population growth and receptivity to population programs.

2. Intermediate Objectives:

-- Seek an effective working relationship with governorate health personnel which allows program implementation without strong central Ministry of Health (MOH) involvement.

- Develop baseline data to enable accurate evaluation of program impact.
- Identify and implement means for increasingly serving women and children with primary health care services.
- Develop a cadre of Yemeni health care personnel trained in family planning techniques and services.

3. Progress and Performance:

In last year's Action Plan the Mission gave scant attention to the establishment of intermediate objectives because of the problems then being experienced with the MOH on the planned Child Survival project and the evaluation underway to determine the future of the Tihama Primary Health Care project (TPHCP). Had the MOH declined the Child Survival project and the evaluation recommended termination of the Tihama project on schedule, the Mission would have had no bilateral vehicle to pursue health objectives. Over the last year, however, the MOH accepted the Child Survival project with mild enthusiasm, and the Tihama evaluation urged a two-year extension to enable program consolidation and accelerated efforts to reach women and children. USAID's health objectives were further bolstered by the YARG's stated TFYP objective of achieving 50% primary health care coverage by 1991.

A maternal and child health survey conducted in the Tihama two years ago provides the baseline for assessing recent advances attributable to this project. Only an estimated two percent of the children in the project area were immunized against five of the six major childhood diseases; today the figure is about 60 percent.

The Mission's own assessment of programs in several Tihama villages underscored low female access rates to PHC services. This was attributed to the low number of female health-care providers, low professional capability among those that exist, and resulting lack of villagers' confidence in services provided. The TPHCP is supporting a new midwifery

training program and a greater emphasis on recruiting and providing support to female primary health care workers. A woman has been appointed assistant director of MCH services in the Tihama governorate. It is hoped that her appointment will coalesce support for women's outreach programs in the project area.

Although the new Child Survival project is barely underway, its initial efforts provide hope that it will be the appropriate vehicle for accomplishing both intermediate- and long-term Mission objectives in the health sector. One of the project's first tasks is the collection of baseline data in the governorates served and the establishment of monitoring capability. A planning workshop conducted in October for central Ministry and governorate health personnel drew wide and enthusiastic attendance, particularly from the governorates, and the project's working relationships with the governorate health staffs are excellent. USAID believes that the project's decentralized implementation strategy is appropriate in a sector where heavy reliance on the central ministry can be the kiss of death. Moreover, a recent immunization training program in the Marib governorate showed that the Ministry's apprehensions regarding likely female involvement and the feasibility of high rural immunization coverage rates are probably unfounded.

USAID still lacks data on the existing health-provider network staffed by traditional practitioners, pharmacists, and modern-health personnel which captures a sizeable segment of the Yemeni health care market. The relatively small size of the country, growth in rural roads, and access by an increasing number of Yemenis to modern transport means that even the remotest villagers can and will travel to major cities when curative services are needed. Although it may be difficult given current MOH attitudes, USAID plans over the next year to launch a study of the private health care market, how to build on its strengths, how to price services, and how to remedy deficiencies.

The Mission's small and low-key population program has always depended upon the availability of central and regional funds, particularly from

the ANE Regional Population Project designed for countries where a bilateral population project is not feasible. Over the past year USAID sponsored successful family health workshops under the auspices of the Yemeni women's associations, sent Yemeni officials to observe successful family planning programs in other countries, and provided training to doctors in laparoscopic techniques.

USAID is developing a two-part population strategy for the coming year. First, we will continue to build acceptability of family-planning and population awareness through: a RAPID program based on the 1986 census; a family-welfare training program using simple visual and audio-visual materials that women trainers will take to villages and health facilities; a child-spacing component in the two existing health projects; and further support from JHPIEGO to Yemeni health care providers in family planning techniques. Second and most importantly, the Mission plans to initiate a targeted family planning effort in the Taiz Governorate, taking advantage of this populous governorate's broader acceptance of the need for family planning services. This program will include a KAF survey linked to a Taiz RAPID program, special family-welfare training programs with the women's associations, and organizational development activities for MCH programs in the region. Over time, the Taiz pilot activity is expected to employ various family-planning and population resources to demonstrate the value and acceptability of this program nationwide.

These pilot activities do not yet constitute a solid population strategy for the Mission, but will help to determine what may be feasible over the longer-term. USAID plans to develop a more formal population strategy during FY 89, by which time the results of these pilot efforts will be available.

In summary, while USAID does not claim impact on its long-range population objective, the Mission believes progress is beginning in mobilizing Yemeni individuals and organizations in support of population programs. Much, however, remains to be done in coming years.

Over the next year, the Mission's major tasks in health and population will be to: 1) consolidate program emphases on women and children under the Tihama project; 2) initiate the health education component of the child survival project and expand project activities to additional governorates; 3) develop the nationwide RAPID and promote its availability throughout Yemen; and 4) begin development of a Mission population strategy based upon lessons learned in Taiz pilot activities.

E. Water

1. Long-term Objective:

-- To assist the YARG in the development of a data base, institutions and policy analysis capability which will enable it to allocate water resources effectively in support of growth objectives.

2. Intermediate Objectives.

-- To join forces with the UNDP and other donors in designing and implementing an effective program for developing water data, institutions and policies.

-- To introduce modern methods of irrigation enabling Yemeni farmers to achieve productivity increases using smaller amounts of water.

-- To enable the Confederation of Local Councils for Cooperative Development (CLCCD) and its member local councils to expand their planning, analysis and project implementation capabilities as well as enhance their ability to generate financial resources from donor and Yemeni sources.

3. Performance and Progress:

The UNDP and the YARG recently signed an agreement for a program of assistance to the High Water Council to help devise a National Water

Management Plan which will include water laws, policies and implementation plans. Although USAID has offered to seek YARG agreement to the use of P.L. 480 proceeds for local cost support, the UNDP has not identified potential uses. The project includes the elements recommended in the earlier World Bank Action Plan. Regardless of the recent signing, most donors agree that the program, although central to addressing Yemen's serious water scarcity constraint, has a low probability of success unless the YARG can muster the political will and ability to establish and enforce necessary policies.

USAID is now in the process of designing the Irrigated Farm Practices project discussed earlier in the Agriculture section. While the exact components are still unclear, the project will complement agreed-upon P.L. 480 self-help measures relating to water resource training and demonstration centers in the Eastern Provinces, construction of a connecting canal between the Marib Dam and completed primary canal systems, and the on-going program constructing small diversion dams for irrigation and livestock.

Had negotiations with the Rural Water Supply Department (RWSD) been more successful in producing a plan for development of RWSD's planning, analysis and resource mobilization skills, USAID might now be considering a continuation of the Small Rural Water Systems project (279-0044), despite budget limitations. Unfortunately, the process of discussing evaluation findings and recommendations revealed clearly that RWSD does not appreciate the need for planning and management improvements in the rural potable water sector. Rather, RWSD continues to operate in a manner that seeks turnkey water projects and plays one donor off against another in its effort to be responsive to local political pressures.

Despite this conclusion, USAID believes that potable water remains a sine qua non for the development of rural Yemen's productive capacity. Moreover, it is clear that with or without the YARG, Yemeni villagers themselves will continue to invest substantial resources in developing water systems. The challenge is thus to maximize the impact of resources

expended in the pursuit of potable water. Believing that the systems produced under the Small Rural Water Systems project have been well constructed and responsive to the needs of the rural population, USAID is undertaking a two-phase water-related impact study. The first phase, scheduled for completion shortly, surveyed two-thirds of the project area's village water systems, as well as a control population of villages with non-project water systems. The study is focusing on operational efficiency, utilization of the new water resources, and limited socio-economic and health impacts. Phase two of the study will involve a more intensive investigation of relationships among water, health, and selected aspects of community development in a subset of the larger sample of water systems in the initial survey.

Preliminary findings from the phase-one study indicate a high level of user satisfaction with their new water systems. Village representatives perceive positive health effects of the water. They believe that their lives, their children's health, personal cleanliness, and even their food preparation have improved. The technical designs, operation, and impacts of USAID projects seem superior to those in the control villages, but additional attention is needed to system operations and maintenance.

Assessing that RWSD is currently an inappropriate counterpart agency, recognizing the continued importance of rural potable water coverage, and seeking to incorporate health and sanitation components into a future water program, USAID is taking a lesson from its own experience with the Ministry of Health and is looking toward a decentralized rural water program with the Confederation of Local Councils for Cooperative Development (CLCCDs) to develop and implement a P.L. 480-funded program integrating water, health and sanitation components. Since the local councils in each governorate report to the Governors' offices, and the nationwide Confederation reports to the President, it is hoped that the process of developing planning, management and resource mobilization capabilities can be transferred to local government and consolidated as necessary at the national level. USAID is coordinating closely with the Confederation in the design of the proposed program to ensure that it is fully responsive to both USAID and Confederation objectives.

In summary, while USAID has made limited progress in meeting its objectives for the water sector, the Mission believes considerable progress has been made in clarifying tactics necessary for future progress. Over the next year the Mission's major tasks in the water sector will be to: 1) phase out the Small Rural Water Systems project; 2) complete the potable water impact survey to identify lessons which can be applied in future water activities; and 3) incorporate these lessons into design of a P.L. 480-funded potable water program working with local government and the national Confederation.

E. Evaluation Planning

Only recently considered virtually impenetrable for data collection purposes, Yemen is changing rapidly as rural residents become used to Government presence in the countryside. Moreover, in nearly all ministries with which USAID regularly deals, ministry officials are becoming increasingly aware of the need for management information upon which to base policy, programmatic and resource deployment decisions. As a result, USAID is increasingly incorporating baseline data collection and monitoring systems into its on-going activities.

-- In agriculture, the planned agricultural census and soils mapping efforts will build upon information obtained from AID-financed weather monitoring stations to provide the first comprehensive profile of Yemeni agricultural resources. In addition, the results of the recent fertilizer survey will provide baseline data for evaluation of the Mission's future success in encouraging greater fertilizer use.

-- In education and training, the new Education Development Support Project includes a major formative evaluation component, as well as the development of management information systems to enable the MOE to track student access and performance. In addition, a cross-sectoral participant training evaluation assessed the Mission's scholarship program in order to identify problem areas, recommend solutions, and amplify the Mission's understanding of what happens to U.S.-financed participants after they return to Yemen.

-- In health, the Mission's two bilateral projects are both establishing baseline data, and the Tihama project is able to monitor progress against coverage targets in key emphasis areas.

-- Finally, in water, the Mission's two-phased retrospective of the Small Rural Water Systems project and associated health and sanitation benefits will provide a baseline for future Mission activities integrating water and health concerns.

In addition to the training evaluation, a two-part ex-post poultry subsector evaluation is presently being conducted. The first phase is updating the poultry sector assessment originally conducted in 1984, to determine changes in the sector, growth in production of broilers and eggs, and the rise of associated industries, e.g., hatcheries and feed production facilities. The second phase is a more traditional project completion evaluation to determine the effectiveness of the Poultry Extension and Training Subproject in achieving its objectives and lessons which can be learned from its successes and failures.

With the completion of these two major evaluations, USAID will not undertake additional specific evaluations until late FY 1989 or early FY 1990 when a final evaluation is scheduled for the Horticulture Improvement and Training Subproject and a Tihama Primary Health Care project evaluation will address accomplishments and lessons learned with an eye toward ensuring their incorporation in the first formative evaluation of the Child Survival project. For the next 18-21 months, USAID's evaluation program will focus on the development of information and monitoring systems within individual projects to enable more ready assessment of project impact.

V. New Program Thrusts: Incorporating New Strategic Emphases
in a Static Program Portfolio

As the above discussion indicates, USAID's program portfolio, particularly in health and water, is becoming increasingly

decentralized. This will require more coordination with governorate officials and less direct work with central ministry staffs.

A. Women in Development

Another area where USAID hopes to follow a decentralized strategy is in the area of Women in Development, long a difficult issue to address in this conservative Islamic society. In September, 1987, USAID hosted a luncheon for women leaders, reported to have been the largest such gathering ever held in Yemen. The purpose of the luncheon was to obtain support and suggestions for involving women more constructively in USAID development programs.

To follow up, the Mission tapped AID's new university program providing technical assistance for women in development. A reconnaissance team from the International Center for Research on Women (ICRW) recently assessed program development opportunities in different regions of Yemen. Special attention is being given to working with women's associations at the local level. Both the President and the Prime Minister have expressed strong support for these groups, as well as the Girl Guides.

A second visit will involve a workshop for development of specific recommendations, workplans, and scopes of work for the AID/W-funded program to work cooperatively with Yemeni women, their organizations, and USAID activities. If initial efforts are successful, USAID may seek YARG agreement to incorporate a broader local development program funded from PL 480 local currency proceeds.

B. Trade and Investment

USAID has absorbed with interest recent AID/W policy and program documents encouraging increased USAID attention to trade and investment opportunities. In a relatively small economy such as Yemen's, and with a relatively small U.S. Country Team such as exists in Sanaa, much trade

and investment information is known to the U.S. Commercial Office and USAID. These offices coordinate on a daily basis to share information, support each other's objectives, and tap each other's resources. U.S. exports to Yemen were \$24 million in 1984, \$42 million in 1985 and \$83 million in 1986. By September 1987, U.S. exports had risen to \$98.2 million. Major Yemeni imports from the U.S. market are agricultural commodities such as wheat, rice, and poultry feed, agricultural machinery, irrigation equipment, industrial machinery and technical expertise. U.S. imports from Yemen, primarily coffee and animal hides, have also risen from \$1.4 million in 1985 to \$3.8 million during the first three quarters of 1987, according to U.S. Department of Commerce statistics.

The largest portion of U.S. exports to Yemen has been in the form of agricultural commodities. In addition to \$15 million in P.L. 480, Title I concessional sales during 1987, Yemen was authorized \$68 million in GSM credits but used only \$42 million to purchase wheat, flour and poultry feed. In 1988, Yemen is authorized \$101 million but has used only \$13 million thus far. More commodities have been added to the list which now includes wheat, flour, poultry feed, vegetable oil, rice, utility poles, wood, livestock (both dairy and poultry stock), seeds and soft drink/juice concentrates.

The Overseas Private Investment Corporation (OPIC) has been active in Yemen with the Yemen-Hunt Oil Company refinery, a Hodeidah marine project, Hunt's offshore development project and a rural electrification project. OPIC provides both direct loans and insurance coverage which facilitate U.S. participation in Yemeni projects. The Regional Director for OPIC visited Yemen last summer and conducted a seminar on OPIC programs.

The Trade Development Program (TDP), which provides grants for feasibility and other studies, approved grants to Yemen for grain silos and rural electrification studies. The TDP Regional Director visited Yemen in February to discuss future grant possibilities.

Trade missions are another method for promoting business contacts between Yemen and the United States. In October, a group of Yemeni businessmen visited the United States to study agriculture and agribusiness projects which might be applicable to Yemen. The mission visited farms, nurseries, food processing and packaging plants and a number of U.S. government offices. Arrangements for this mission were made by a firm under contract to AID's S&T Bureau for the Market Technology Access Project (MTAP). In the past year, U.S. trade missions have visited Yemen to meet businessmen and to study the markets for wood products, poultry feed and investment. Additional trade missions are planned over the coming year, including a visit by U.S. businessmen to Yemen for agriculture-related business development (again to be arranged under the AID-financed MTAP project), and coordination with the U.S. Embassy/Riyadh Commercial Office on Yemen "spin-ins" to U.S.-Saudi trade missions.

A number of barriers exist to increased trade between Yemen and the U.S. First, U.S. manufacturers' focus on the domestic market means that U.S. products are often inappropriate for a country such as Yemen. Second, even with growing levels of trade, U.S. and Yemeni businessmen have had little experience with each other and lack familiarity with markets and methods. Third, most markets in this region have been in decline for the past few years. The realization has yet to be made in the U.S. that Yemen is a growing market, not one in contraction. Finally, Yemeni import and foreign exchange restrictions limit both sides' efforts.

On the positive side, recent shifts in exchange rates for the dollar, yen and mark have made American goods competitive with those of Europe and Asia. The quality of American products is well known and the U.S. possesses probably the most advanced technology and methods in Yemen's most important development sector, agriculture. Certainly the export of Yemeni oil has increased interest and opportunities in trade for both Yemen and the U.S.

The best prospects for cooperation between the U.S. and Yemen can be found in the sales of agricultural commodities, machinery, irrigation

equipment and food packaging and processing. USAID and the U.S. Commercial Office will continue to cooperate closely to ensure that AID project resources and contacts incorporate U.S. commercial interests in this difficult, but growing market.

VI. Resource Requirements

Over the last three years USAID's programmatic resource base has become more diverse (but better integrated) as Development Assistance resources declined from anticipated levels. Since 1984, USAID's DA programming targets have shrunk from an anticipated \$32 to \$40 million to a current level of less than \$21 million. Concurrently, P.L. 480, Title I resources, initiated in FY 86, have grown from a level of \$3 million to an FY 87 level of \$15 million. USAID has also grown significantly more adept at mobilizing regional and central project resources in support of the Mission's bilateral objectives. From a relatively low \$158,000 in FY 84, the Mission captured \$871,000 in FY 87, and is seeking \$950,000 for FY 88. Priority emphases for these funds will be basic education, population, private sector, and women in development programs. Although DA budget reductions have forced the deferral or elimination of some planned bilateral projects, e.g. private sector, the Mission has so far been able to conduct some limited programs in these areas using regional, central and P.L. 480 funds.

Through FY 90 the Mission envisions only two changes to its current program mortgage. During late FY 1988, the Mission will re-submit a five-year, \$35 million amendment to the \$40 million Development Training III project (279-0080). The existing authorization will be fully funded during FY 89. This new funding extension will bridge the period until a new Development Training IV program can be put into place, incorporating labor force planning findings and recommendations now being researched under Development Training III. Second, as discussed in the Agriculture section, the Mission is developing a concept for a new series of agricultural projects or program modules, outside the ADSP, to foster the Mission's new emphasis on production and productivity growth in agriculture through a focus on input constraints, e.g. water, fertilizer,

seeds, credit, etc., as they apply to subsectors with significant additional production potential. The Irrigated Farm Practices project will be the first component of this new series. The addition to the Mission's mortgage should be more than offset by previous scaling back of planned LOPs for ADSP subprojects.

Both of these revisions to the Mission's program portfolio can be incorporated within a DA level of approximately \$21 to \$22 million, if this level is maintained for the next 2-3 years, if the Mission and the YARG agree on creative use of P.L. 480 generations to support selected program components, and if the Mission can continue to expand the impact of limited resources by leveraging additional "buy-in" funds from central and regional projects. Although these caveats apply particularly to the two new or "add-on" activities, the same caveats apply to the continuation of other program activities at acceptable levels of effort.

This scenario also assumes continuing levels of P.L. 480, Title I at a \$10 to \$15 million annual level at least through FY 90. Although some members of the Interagency Committee on Food Aid may question such continuing levels in light of Yemen's new posture as an oil producer, the Mission and the Embassy feel strongly that these levels are justified for several reasons:

- Despite oil, the Yemeni economy will continue to be chronically short of foreign exchange to finance both commodity import requirements and strategic imports needed to encourage growth;
- Market development considerations will continue to be important in a country which has little or no capacity to produce food grains economically;
- USAID's success over the past year in using P.L. 480 availabilities as an opportunity for policy negotiations implies a need for future resources with which to make additional policy demarches; and finally,

-- In light of the clear congruence between USAID's assistance strategy, other donor efforts, and the YARG's TFYP objectives, P.L. 480 generations are assuming an increasingly critical role as the financing source for portions of USAID's assistance program.

VII. Management Improvements

The last two years have seen major changes in the way USAID conducts its business in Yemen. The Mission has responded to program and operating expense cuts with analyses and creativity aimed at paring down budgetary requirements.

-- Modularization of project components to support project goals and purposes is facilitating not only crisper thinking about relationships among components, but also better formulation of contractor scopes of work and requests for proposals.

-- Budget cuts, modularization, and the Mission's recognition of the need for a standardized and integrated project budgeting, financial monitoring, control and reporting system have driven the development of a computerized data base which is now in place for the Core Subproject of the Agricultural Development Support Program. This system will enable project, program and controller staffs to track project costs from the most detailed levels of annual workplans to the most aggregated level of MACS reporting to AID/W. The use of the computerized budgeting component of this new system in contract negotiations for the Core II Subproject enabled the Mission to pare \$4 million off the total five-year contract cost. The Mission will circulate the budgeting component of this new system among other ANE Missions to see if it can be adapted elsewhere.

-- Contractor Support Services, an operation amalgamating USAID and USAID contractor administrative support services in select categories, is beginning to have appreciable impact on reducing program support costs in this expensive country.

-- The Mission recently signed a Procurement Services Agreement which will provide centralized procurement of project commodities for the Mission. It is expected that this approach will result in greater efficiency and ultimately cost savings in this important component of the Mission's program.

-- New initiatives for centralized management of substantial U.S. and third country training programs are expected to result in better participant placement, tracking and support at lower cost to the Mission.

-- The conduct of major financial program audits during FY 1987 and 1988, is expected to tighten project financial management by contractors, and to resolve some longstanding issues between AID and contractor project management staffs.

-- A two-day management workshop was held last summer with all Mission staff to clarify and promote Mission objectives, recommend management improvements, and further Mission team building efforts.

-- Last, but certainly not least in the eyes of Mission staff, has been the successful Mission effort to upgrade the quality of USAID's own physical plant to a level commensurate with solid professional performance. Although much remains to be done, it is clear that the USAID/Yemen of today has a greatly improved work environment over that of only two years ago.

Over the next year, the Mission has established the following management improvement objectives:

-- Expand the coverage of the new computerized budgeting and accounting system to additional projects. The Faculty of Agriculture Subproject and Child Survival will be the highest priorities, particularly as the new system will be used in negotiation of the direct contract for the technical assistance component of the FOA subproject.

- Institutionalize the Procurement Services Agreement recently signed within the project management system.
- Computerize the Contractor Support Services system, evaluate progress to date to identify recommendations for future action, and expand the arrangement to include leasing of all AID and contractor housing in the Hadda Compound.
- Complete the approved new wing for the USAID office complex and upgrade electrical systems for the entire building.
- Continue to upgrade Foreign National staff capabilities through targeted recruitment, formal and on-the job training opportunities and the matching of employee skills to job requirements.
- Conduct a follow-up to last summer's management workshop to determine progress against objectives established earlier by Mission staff and follow-up on areas identified for improvement.
- Initiate, with AID/W assistance, a public relations strategy designed to make target groups in the U.S. and Yemen more aware of the accomplishments of USAID in Yemen, and to build support for future efforts.

VIII. Conclusion

In summary, USAID believes the last year has been one of solid performance which has yielded identifiable progress in the achievement of programmatic and managerial objectives. Our strategy, as previously formulated, remains sound. Our tactics are continuously being reassessed to accommodate shifts in YARG receptivity and changes in the economic environment. Despite budget cuts, our program remains active and even expanding as a result of greater efficiency in the use of resources, better budgeting and tighter financial control, and creative use of funds. Finally, our adoption of several management

improvements has shown that even in this dusty outpost, good management and logical thinking are alive and well. The Mission hopes that the coming Program Week will provide an opportunity for considerable discussion not only of our accomplishments but also of the major tasks which lie ahead.