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USAID/SANA'A ACTION PLAN

AND

PROGRAM STRATEGY REVISION

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A

USAID/YEMEN ACTION PLAN
FY 1988 - 1989

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Executive Summary

Last spring's review of USAID/Sana'a's CDSS and Action Plan resulted in formal approval of these documents, but opened for further analysis and field-AID/W discussion a number of economic and sectoral issues central to the pursuit of the strategic focus on institutional and human resource development in four sectors: agriculture, education, water and health. Shortly after submission of the CDSS, it became apparent that significant changes were occurring in the Yemeni economy. In addition, over the last year, three major evaluations highlighted issues regarding the likelihood and means of achieving sectoral objectives from an institutional development perspective. The confluence of these factors led the Mission to initiate a re-examination of the strategy outlined a year ago. This document thus seeks to fulfill Action Plan requirements within the framework of a shifting USAID program strategy. Because this is not a full CDSS, there may well be areas where additional analytical work is required. USAID hopes that this Program Week can focus on the coherency of the strategy and implementation framework presented here and leave detailed issues for further analysis during refinement of this strategy. A summary of the major points for review and discussion follows.

Macroeconomic Situation: Although the downward trend in remittances and Arab donor aid was apparent earlier, 1986 saw a major acceleration in the decline in recorded remittances which fell by a further 24% from the 1983 height. This dramatic fall, coupled with the earlier drawdown in foreign exchange reserves as a result of high imports, pushed the Yemeni economy into a serious foreign exchange pinch at the same time the Yemen Government (YARG) was undertaking increasingly draconian measures to redress the budget deficit. Because of these pressures, the YARG intensified the promulgation and enforcement of administrative regulations designed to stem

imports, halt further FX drawdowns, and further reduce Government expenditures. As a result, the YARG faces a major economic contraction pending the advent of oil revenues in 1988.

USAID Strategic Revision: Recognizing that the drop in remittances signals the approaching end of externally-fueled growth and calculating that the growth effects of oil revenues are unlikely to match those of the high remittance period in generating incomes and employment, USAID determined that a domestic growth strategy is required for Yemen over the coming years. Specifically, Yemen needs to maximize returns to existing resources in order to allow continuing income growth as a result of productive domestic employment.

Productive sectors of the Yemeni economy include agriculture, mining, manufacturing, services and government. Oil production will foster growth in the mining sector, but will not generate significant employment. The manufacturing and services sectors are in their infancy, widely and thinly dispersed among a multitude of subsectors, and employing a small percentage of the 15% urban population. USAID has no interest in expanding Government employment except to facilitate productive private sector growth. Thus, at the moment, it is agriculture, primary occupation of Yemen's 85% rural population, which holds the greatest potential for generating broad income growth. This conclusion is reinforced by Yemen's need to reduce its dependency on imported foods, and significant potential for production and productivity increases.

Yemen's growth potential, however, is seriously constrained by a number of factors, including low educational levels, lack of a skilled workforce, water scarcity, lack of technology and managerial talent, limited institutions, an eroding land base, an unhealthy workforce and, probably, a growing lack of

financial resources, particularly in rural areas. Moreover, recent macroeconomic difficulties have led the YARG to increase its level of intervention in the economy, a trend which may be hard to reverse when economic conditions improve.

USAID thus proposes to focus on fostering growth through greater production and productivity in selected agricultural subsectors, while seeking to reduce some of the major constraints to growth in agriculture as well as other productive sectors. Specifically, USAID plans to address: macroeconomic and sectoral constraints through policy dialogue; skilled workforce constraints through increasing the efficiency of basic education, general participant training and targeted secondary and B.S.-level agricultural training; water scarcity through policy dialogue, institutional development and technology transfer for irrigated farming; institutional constraints through various project mechanisms; and an unhealthy workforce through continuing primary health care and, to the extent possible, child survival programs.

Program and Management Issues: With USAID's development assistance program limited to $22 million for the forseeable future and staffing resources constrained, the major tactical issues for discussion and resolution during Program Week are as follows:

-- Given the lengthy analytical agenda outlined in Annex A and discussed more fully within the text, how can USAID and AID/W make available the necessary financial and staffing resources to facilitate completion of high priority activities?

-- How can AID/W and the Mission collaborate in making funds available for strategically important agricultural policy and productivity program elements, as well as for activities designed to deal with water policy and use constraints?

-- In light of the less direct impact on growth objectives, continuing lack of YARG movement on population/family planning issues, and the Ministry of Health's continuing non-acceptance of proposed child survival objectives and activities, should (and can) USAID divert resources budgeted for this effort to support other, more productive programs?

-- How can USAID food aid resources (probably Title I, but possibly Section 206) be used to support the macroeconomic and strategic objectives outlined here?

-- To what extent must USAID realign not only USAID but also contractor resources to support strategic emphases?

-- Is 1989 an acceptable timeframe for formalizing this new strategy?

Readers who prefer to focus on more traditional Action Plan concerns are encouraged to move to Section II, Performance and Plans.

USAID YEMEN ACTION PLAN FY 1988-1989

I. INTRODUCTORY OVERVIEW.

A. INTRODUCTION. This Action Plan:

1. updates Mission and AID/W information on Yemen's current macroeconomic situation;

2. assesses Mission progress against the strategy initiated in 1980 and reaffirmed in 1986;

3. assesses the continuing validity of this strategy in light of macroeconomic changes and progress to date in implementing the existing strategy;

4. signals the nascent development of a new strategy;

5. identifies some programmatic and managerial implications of the proposed revision in USAID's strategy; and

6. poses some issues for Mission and AID/W resolution in the areas of sectoral involvement, policy dialogue strategies and tactics, resource allocation and sources, and timing of strategic and programmatic revisions in light of YARG capabilities and USAID financial and staffing limitations.

Because of the complexity of the issues involved and the Mission's desire to use Program Week as a forum for gaining AID/W support for and guidance on the strategic revisions signaled here, this Action Plan is longer than the page limitations suggested by the guidance. We ask AID/W indulgence in reviewing a longer document than requested.

In light of the revisions to our strategy presented here, we expect AID/W to request preparation of a new CDSS. In order to acquire sufficient information about the agricultural sector for preparation of a full CDSS, we urge AID/W to consider a formal CDSS revision during FY 1989, by which time a number of economic issues raised in the macroeconomic discussion should also have been addressed.

B. YEMEN IN THE ANE CONTEXT. Before proceeding to specific issues, the Mission believes it is useful to put Yemen in a broader developmental context to ensure that readers understand how the profile of Yemeni development problems, constraints, and potential solutions differs significantly from that of the ANE region as a whole.

1. Yemeni GNP per capita ($430 as of February 1986, IMF Article IV Staff Report) has been, for some time, sufficiently high to make Yemen's crude economic well-being appear equal to or better than that of many countries in the region.

2. GNP figures, however, belie the abysmal state of Yemen's development as measured by indicators from AID's "Blueprint for Development."

	Blueprint Goal	Yemeni Situation
Life expectancy	60 years	48 years
Infant mortality	70/1,000	135-170/1,000
Child mortality	10/1,000	70/1,000
Adult literacy	50%	30% males 2% females

Primary School enrollment	90%	30% males 20% females
Fourth grade completion rate	70%	15% males 10% females

3. Thus it is clear that the level of Yemen's development in nearly all areas places its problems much more in line with those of Africa than those of other ANE countries except, perhaps, Nepal.

4. Moreover, Yemen's relatively recent (15 years) emergence into the modern era, places it at a disadvantage in terms of infrastructural and institutional development and the availability of trained human resources.

5. Nevertheless, Yemen enjoys some advantages in comparison with other countries at similar low stages of development:

a. The oil boom in the Gulf provided a substantial employment outlet and high levels of remittance income financed high levels of food and consumer imports, and private rural infrastructural development, e.g., rural roads, schools, and potable water systems.

b. As a result, absolute hunger is relatively unknown (although pockets undoubtedly exist among the poorest classes, and maternal and child malnutrition is widespread due to cultural and dietary practices).

c. Moreover, with high levels of personal disposable income, the average Yemeni family, in terms of material possessions, e.g., television, can be considered to have a higher quality of life than families in other countries.

6. The flip side of private remittance wealth, however, has been the relative poverty of the Yemen Government (YARG) itself. Unable to access remittance income easily because of difficulty in taxing the population it barely controls, the YARG has been unable to finance fully nationwide development programs for education, health and other social services, or to establish foundations for productive investment and growth. Only massive donor aid and privately financed projects have enabled the YARG to make progress in these areas.

7. With major recession in the Gulf and the discovery of Yemeni oil, the balance of public and private resources is now shifting. Private income is undoubtedly declining, although substantial cushions probably remain. Public income, however, will rise, replacing some but not all of the decline in private income and Arab donor aid.

8. For the first time in its history the YARG will have the financial ability to expand social services and infrastructure and enable productive investment and growth. This capability should begin to be felt in 1989 or 1990, depending on oil production schedules, levels, and world oil prices.

9. The period between 1986 and 1989-90, however, will be extremely difficult as the Yemeni economy absorbs the shock of falling remittance levels and Arab donor aid, without yet having access to newly found oil resources.

On the macro level then, the primary requirements of Yemen for the CDSS period are: a) short-term access to sources of financing for strategic imports such as food, agricultural inputs and raw materials; and b) longer term assistance in the

development and implementation of policies and programs designed to establish a foundation for wise use of oil resources and continuing remittance income to support longer term growth through expansion of domestic productive sectors.

C. MAJOR STRATEGIC GOALS - CDSS. USAID's strategic objectives were initially established in 1980 and reaffirmed with sectoral amplification in the 1986 CDSS submission. Specifically, the Mission proposed to continue its overriding emphases on institutional and human resource development, with activities designed to meet the following sectoral objectives:

1. in agriculture, to assist the YARG and the private sector maximize Yemen's human and natural resources in support of food security over the longer-term;

2. in education, to Yemenize and increase the efficiency of basic education to allow greater numbers of the population to achieve literacy and employment skills within the limits of Yemen's available financial resources;

3. in health, to develop a framework for significantly reducing infant and child mortality rates through the establishment of replicable model health care programs and to increase YARG awareness of the implications of rapid population growth and receptivity to population programs; and

4. in water, to assist the Yemen Government in developing a rational water policy and the institutional capability to develop and allocate efficiently both rural and urban water resources.

This strategy assumed that continued growth would take place, although perhaps not at the high rate of the late 1970's and early 1980's, if institutional and human resource constraints could be addressed in key areas and if production increases could be facilitated in targetted areas of the agricultural sector through the transfer of technology and managerial skills. The CDSS strategy also continued to incorporate a number of basic human needs elements.

Uncertain at the time of the last CDSS were: the severity of the impending Yemeni balance of payments crisis resulting from earlier drawdowns of FX reserves; the precipitous drop during 1986 of recorded remittances; and the imminence of the need for major economic policy decisions on the part of the YARG. Moreover, unknown then and still questionable now were the timing of oil resource flows (currently targetted for 135,000 bpd through the decade) and the likely world price of oil at this important juncture.

D. ANALYSIS OF MACROECONOMIC CHANGES.

1. Summary of Previous Economic Performance. Until 1983, when the combined effects of levelling remittances, declining donor aid, and rising import levels due to an appreciating rial resulted in a growing scarcity of foreign exchange, YARG macroeconomic policies were exceptionally liberal in comparison with those of most developing countries. Openness of import and foreign exchange transactions resulted in minimal economic distortions. Between 1982 and 1983, however, growth in real GDP declined from 10% to 3.5%; net foreign reserves declined from 5.9 months of imports (end 1981) to 2.8 months (end 1983). With the budget deficit peaking in 1982 at 48% of Government expenditures, and 33% of GDP, the

YARG slowed investment and limited recurrent expenditures to reduce this trend. During 1983, the budget deficit declined by 9%, precipitously squeezing YARG expenditures despite moderately rising tax collections. Despite a reduced budget deficit, the YARG faced the consequences of earlier excesses. By the end of 1983, Government borrowing from the Central Bank to finance the growing budget deficit pushed its share of the factors causing the increase in the money supply to 77%. Despite massive growth in the money supply, the rial remained relatively stable during 1983, depreciating only 2.5% despite adoption by the monetary authorities of a flexible exchange rate. Inflation remained below 5% through 1983, reflecting appreciation of the rial pegged to the dollar against all other currencies, and an increase in the demand for money as a reflection of low inflationary expectations. Because of low inflation, interest rates remained positive through 1983.

1984 and 1985 marked the transition to the serious economic pinch which occurred in earnest in 1986. In hindsight it is clear that economic policy and regulatory patterns established during this period set the stage for adoption of the more stringent measures now in effect. At the time, however, the introduction of these measures was so incremental, and their enforcement so widely flaunted in the free-wheeling Yemeni economy, that the sum appeared less than the parts. It is also clear in hindsight that without these measures, the Yemeni economy might have declined much more rapidly than it did. The budget deficit was further reduced during 1984 and 1985, falling to 21% of GDP by the end of 1985. Imports declined by a further 22% from 1984 to 1985 in real terms, for a total reduction of 43% from their 1982 peak. Undoubtedly, the greatest factor contributing to a reduction of imports was the significant depreciation of the rial which dropped in value by

over 55% (weighted average) by the end of 1985. Also a factor was the drop in remittances to only 70% of the 1983 level. Inflation, always hard to measure in Yemen, appears to have risen above 15% by the end of 1985 as a result of more expensive imports and the lag effect of several years of growing budget deficits financed through money creation. Thus, sometime in late 1984 or early 1985, interest rates became negative.

Roughly concurrent with the discovery of oil in exportable quantities in 1984, the YARG commenced a series of measures designed to stretch out Yemen's dwindling resources until oil export infrastructure could be in place. Import controls were introduced, first as a means of reducing waste and protecting infant industries but, increasingly, to allocate scarce foreign exchange. The YARG established and expanded the powers of the Banker's Purchasing Committee to provide a vehicle for a "controlled float" in the exchange rate against the dollar. Various banking control regulations were administratively (although not legislatively) adopted as were currency regulations designed to control the movement and allocation of foreign exchange. Efforts to reduce the budget deficit by limiting expenditures and increasing revenues continued. In retrospect, it is clear that the YARG was seeking through the controlled float and import allocations to alleviate the impact of contractionary economic forces on politically sensitive consumers and businessmen.

2. Changes Since 1985. In 1986, the bottom fell out of the YARG's efforts to shore up the declining economic situation. By May 1986, the YARG found itself unable to pay the foreign exchange component due at the mass exodus of expatriate teachers for summer holidays. In 1986, remittances were estimated at only $565 million (annualized based upon

three quarters data, Central Bank of Yemen). By October 1986, bolstered by a reported Saudi balance of payments grant of $100 million, grant aid recovered to $206 million, still offsetting less than one-third of the decline in remittances. With (a) the 1986 total of remittances and grant aid down by 51% from 1982 levels, (b) drawdowns on loans to Yemen falling by 28% from 1982, and (c) foreign exchange reserve levels at the end of 1985 only 57% of the 1982 level, Yemen was forced to curtail import levels dramatically. Total recorded goods imports fell dramatically in 1986 to an estimated $732 million, as compared with $1.95 billion in 1982. Thus, the balance of payments deficit has been brought under control, but with severe repercussions to the economy, including a lack of essential inputs needed for growth.

Measures to reduce the government deficit and the level of money creation continued. Their success is shown by an estimated growth in net government borrowing from the banking system of only 13% during 1986. This trend is much more pronounced when inflation and devaluation are reflected. It is clear, therefore, that the government deficit is being brought under control, but at great cost to services, investment, and real wage rates for Government employees in light of inflation estimated at 37% for 1986.

Although its effect has yet to be felt strongly, Yemen may have an emerging employment problem caused by falling employment opportunities in the Gulf States, the return of some emigrant workers, the continued high growth in the labor force stemming from high population growth, and current low levels of domestic economic growth and job creation. There is considerable evidence that the level of real wages in Yemen has fallen. The going daily wage for casual labor is currently YR 90, up from a

level of YR 80 in 1984. With inflation, as measured by the Sana'a Index of Retail Prices, running at 27% in 1985 and an estimated 37% in 1986, real wages have fallen by over a third since 1984. This fall in real wages is expected to make Yemeni domestic production more competitive against imports, and the downward pressure on wages should help to restrain unemployment in the short term.

The rial continued to devalue in 1986 but, within recent weeks, has begun to revalue. Weighted average exchange rate during 1986 was YR 9.12 = $1.00 versus a 1985 average of YR 7.11 = $1.00. The current rate of YR 10.00 = $1.00 probably reflects not only YARG efforts to stabilize the rate but also the reality that, with the rial pegged to a depreciating dollar, it continues to devalue against a market basket of currencies.

The YARG's reluctance fully to allow market forces to set the exchange rate, import demand, and consumer prices stems largely from a desire to avoid the adverse effects to the consumer of devaluation-spurred price increases for basic goods. The closing of offical offices of the money changers has restricted significantly what had been a relatively open market for foreign exchange. In addition, the current ceiling on lending rates of 15%, appropriate only two years ago, now underprices capital, given inflation.

Through all of these pressures, the YARG remains strongly debt averse. The debt-service ratio, although doubling between 1985 and 1986, is not problematic like those of other developing nations. The largest portion, military debt to the U.S.S.R., has been and will likely remain easily re-schedulable.

3. Prospects for the Future. For the Action Plan period, the outlook for an improved foreign exchange position

rests largely on the timing of Yemen's oil exports and the global supply and demand for oil. Neither remittances nor donor aid are likely to rise above current levels. (To be sure, a higher interest rate structure together with exchange rate adjustment could induce higher levels of remittances.) Yemen's oil export pipeline is optimistically slated for opening in late 1987. The margin for absorbing a new oil producer without depressing world oil prices is slim. In Yemen's favor, however, is its high quality oil, which should command a premium price. Thus, while Yemeni export volumes may be less than hoped, a market will probably exist, at a price somewhat higher than the average. Assuming that a price of $18/bbl holds, that Hunt receives 50% of oil flows as payment for costs and investments, and that initial pipeline flows total 135,000 bpd, Yemen's net revenues from oil will total $443 million, an amount roughly approximate to the fall in remittances since 1984. Beyond the Action Plan period, assuming that world oil demand allows modest price increases and higher production, Yemen's net oil revenues might exceed $1 billion annually, an amount that would allow substantial growth and investment.

4. Current Policy Issues. Current economic policy which relies heavily on exchange rate and import licensing controls is, by its very nature, generating inefficiencies in the allocation of foreign exchange for imports. Import licenses are awarded based on a foreign exchange budget for commodities drawn up by the Ministry of Economy, Supply and Trade. After receiving an import license, an importer applies to a commercial bank for a letter of credit. Each letter of credit must be approved by the Central Bank, which guarantees to the commercial bank sufficient foreign exchange for the transaction. Imports may only clear customs if they are

covered by both an import license and an approved letter of credit.

While the need to increase demand for labor is becoming increasingly critical, government-created distortions in the markets for foreign exchange and capital may continue to favor capital and import intensive rather than labor intensive production methods. Foreign exchange and capital price signals have provided adverse rural/urban terms of trade, disfavoring the rural economy from which over three-quarters of the population derives its income. The IMF concluded that this situation was improving in late 1986. Recent revaluations of the rial may negate this positive trend. Development of the oil industry will not by itself be a major new source of employment. If investments made from future oil revenues are to create the gainful employment needed in the economy and to lead to self-sustaining growth, distortions in foreign exchange and capital pricing will need to be removed, providing incentives to development of domestic agriculture and non-farm rural enterprises.

The YARG alleges that current restrictions on imports and foreign exchange are temporary and will be lifted once Yemen's foreign exchange position improves. If so, the key issue over the Action Plan period is what will replace the current restrictive system when oil revenues begin to materialize. Since these will accrue to the Government, will the Central Bank take on greater responsibility for meeting private sector foreign exchange demand, auctioning off dollars earned from oil exports? Or will this new foreign exchange be used solely to finance government imports for an expanded investment program? (It is instructive to note that, when the YARG initiated the Bankers' Purchasing Committee mechanism, the government's

foreign exchange allocation was set in 1984 at 10%. In 1985, its allocation rose to 15%. This gives hope that the YARG's intentions are honorable.) If the YARG does retain new FX generations, will a two-tier foreign exchange rate system --one for government, one for the private sector-- be reinforced? Or will the YARG follow through on its stated intent to unify the exchange rate by the end of the decade? Regardless, the principal beneficiaries of oil revenues are likely to be the government sector and the urban manufacturing and services sectors. To offset a possible relative shortage of capital in the private sector (compared to the public sector) and/or in the rural agricultural and non-farm enterprise economy, further deepening of Yemen's primitive financial system will be needed.

E. PROGRESS TOWARD CURRENT CDSS GOALS. There is little doubt that USAID has made significant progress in human resource development, particularly in terms of developing a small but growing cadre of technocrats who are increasingly assuming responsible positions within key ministries. Human resource development is innately long-term; progress in staffing key ministries with U.S. trained personnel is now accruing from actions taken in the late 1970s and early 1980s. This is particularly true in the petroleum sector where key Ministry of Oil and Mineral Resources personnel are U.S. trained. With benefits now being felt, it is at least arguable that, in retrospect, more of AID's earlier resources could have been effectively applied toward participant training programs increasing the critical mass of U.S. educated policy-makers within the YARG beyond current numbers and facilitating policy dialogue efforts now limited by the lack of analytical depth in most YARG Ministries.

With respect to institutional development objectives, it is equally clear that our success has been mixed and, on balance, hampered by:

1. lack of YARG understanding and appreciation of institutional development objectives;

2. the extremely low average educational level of Ministry staffs (often less than secondary school level) with resulting shortages of qualified counterparts;

3. extremely low YARG salaries which inhibit performance of even well-trained employees in Government jobs and require outside income sources;

4. the inability of traditional modes of AID technical assistance to define institutional development objectives and scale activities down to the skill level of recipient organizations; and

5. the wide cultural gap between U.S. advisors and Yemeni counterparts.

Given the macroeconomic and programmatic issues outlined above, USAID faces a strategic choice, i.e., whether to "stay the course" with its institutional and human resource strategy, recognizing that these are necessarily exceptionally long-term objectives, or to revamp the overall strategy in light of macroeconomic changes, program realities and reduced budgetary expectations. We have concluded that a strategic shift is required. This shift, however, will not require massive changes in the planned program portfolio, at least in the Action Plan period, but will require new emphases in project design and implementation and overall program management.

F. PROPOSED NEW STRAGEGIC AND PROGRAM ELEMENTS. The Agency's "Blueprint" establishes a minimum standard of a 2% annual rate of growth in real per capita income to be reflected in increases in employment, income and agricultural production. To achieve and sustain this standard over the long run, the Mission has concluded that the major long-term objective of our assistance program must be to increase the rate of growth in the domestic economy, particularly as it relates to agricultural production and productivity and rural income generation.

Our previous emphasis was on institutional and human resource development, viewed almost as ends in and of themselves. This is no longer the case. Both are now viewed as means to eliminating constraints to growth. It is also recognized that there are more direct means of removing constraints to growth and that, if our long-term objective is the promotion of domestic economic growth, all available means to that end should be employed.

The relatively large past increases in Yemeni per capita GNP were largely the result of external resources, i.e., remittances and grant aid. Increases in real GDP per capita (domestic production) were much more modest --only slightly in excess of 2% per annum over the past 10 years.

As the previous section demonstrated, levels of remittances and grant aid have fallen dramatically and are highly unlikely to return to their previous levels. If Yemen is to continue to develop and grow economically at acceptable rates, it is clear that there must be much more reliance on domestic resources in the future. Oil provides an opportunity, but not a panacea. At best, oil may replace a portion of previous external

resources over the short- to medium-term. It is unlikely, however, to exceed what has been and continues to be lost.

The Mission believes that USAID, through its assistance program, and Yemen must concentrate resources more directly on increasing the growth rate of the domestic economy. To the degree possible, growth should be equitable. Equity at this stage in Yemen, however, may be less of a concern than growth because the benefits of past and continuing remittance income have been broadly based. This may be changing and will be carefully monitored by the Mission.

The case for a more direct concentration of Mission resources on the promotion of domestic economic growth is ever more compelling when one considers the current population growth rate of 3-3.3% per annum. Given current extremely limited prospects for introducing any type of national family planning activities, high rates of economic growth and income are imperative. Yemen will have to use all its resources wisely to promote economic growth just to remain even or make marginal gains in per capita well being.

To effect growth and increase incomes, there must be increases in domestic production and productivity. Given the constraints to Yemeni development outlined below, and shown graphically in Table I (page 16a), some areas of the economy are, for the moment, more susceptible to production and productivity increases than others. As some of the constraints to development are reduced or eliminated, other areas may increase their possibilities for production and or productivity increases. These areas are not readily apparent now.

In USAID's view a concentration on agricultural production and productivity is necessary for two reasons: to enhance incomes

Table I - Development Potential and Constraints

Rapid Population Growth

Sectoral Distribution of 1985 GDP (%)

	micro	Agriculture (40%) by definition rural)	Mining and Manufacturing (12%) (minimal rural income generation: income accruing to urban areas	Construction (9%) (assume 25% rural and 75% urban)	Government (17.2%) (assume 33% rural and 67% urban	Other Services (21%) (assume 40% rural and 60% urban)
1.	Distorted macro environment	High	High	Low	High	High
2.	Low levels of literacy and numeracy	High	High	High	High	High
3.	Lack of skilled workforce	High	High	High	High	High
4.	Water Scarcity	High	High	High	Low	Low

5.	Lack of imports for inputs, raw materials to technology	High	High	High	Low	Low
6.	Low institutional development	High	High	Low	High	Low
7.	Lack of access	High	High	Low	High	Low
8.	Lack of managerial talent	High	High	High	High	High
9.	Lack of financial resources i.e., FX or YR, credit	High	High	Low	High	Low
10.	Unhealthy workforce	High	Low	Low	Low	Low

of Yemen's 85% rural population; and to ensure that oil revenues are not wholly absorbed by food import requirements due to rapid population growth. The YARG's own goal of 3.5% annual growth in agricultural production is thus appropriate in that it would accommodate population growth while making small incremental reductions in food import requirements. This is not to say that the industrial or service sectors have no potential. Rather it is to note that, given the limited development of industry and services to date and the minimal numbers of persons employed in these sectors, it would require impossible growth rates to achieve the broad level of income growth possible through production and productivity increases in the agricultural sector. USAID believes that a strategy designed to foster a 3-3.5% growth rate in agriculture, coupled with efforts to reduce macroeconomic, human resource, water and, possibly, health constraints which affect all productive sectors, will most effectively assist Yemen to meet the Agency's target of a 2% minimum rate of growth in real per capita GNP.

Briefly, the rationale for highest priority on the agricultural sector is as follows:

1. Agriculture, including qat, accounts for 40% of GDP.

2. Only 15% of Yemenis live in major cities or provincial capitals, leaving 85% of the population in rural areas or market towns.

3. An estimated 57% of GDP is created in rural areas.

4. Of total rural income, 51% comes from agriculture, 35% from remittances, and 14% from non-farm

enterprises. With remittance income falling, other sources of income will be required to maintain current levels. With 85% of the population in rural areas, increased rural income from growth in agricultural production and productivity will translate into increased demand for the products and services of rural enterprises and urban-type services as well as manufactured goods thus spreading the affects of increased rural incomes across the economy.

5. Finally, increased agricultural production will lessen the need for food imports in areas where Yemen has a comparative advantage and free scarce FX for the import of more productive inputs which, in turn, will further enhance income growth.

To allow agricultural growth to take place:

1. Demand for agricultural products must exist. This condition is clearly met by high levels of food imports and population growth in excess of 3% per annum.

2. Macro-price signals must avoid unfavorable urban/rural terms of trade. Although the Yemeni economy is in far better shape than many other developing countries with respect to macro policies and reliance on private sector forces, policy issues exist, e.g., a) probable continued overvaluation of the rial which favors capital over labor; b) ceilings on interest rates well below the real cost of capital, and virtually nonexistent financial markets; c) small, but extant, subsidies on major commodity imports through margin controls; and d) widely flaunted urban consumer price controls. In Yemen's favor is a producer price structure which provides a strong incentive for expanded production.

3. Potential must exist for production and productivity increases at prices which can compete favorably with import prices. Although the performance of Yemen's agricultural sector over the past 10 years encourages some caution when predicting major performance improvements, on balance, there is ample room for growth over the next 5 years through greater use of arable land (now only 75% utilized), more efficient use of water, greater use of improved inputs, particularly seeds and fertilizer, and more widely disseminated agricultural information.

For example, among the cereal crops, yields of sorghum, maize and wheat are but 11%, 13% and 25% respectively of those achieved in the United States. Among the higher value horticultural crops, onion and banana yields are 45% of the U.S. average, grapes 38%, potatoes 42%, apples 14%, and peaches 17%. Nearly every crop and agricultural enterprise offers similar potential for production and productivity gains. Although for the near term, import substitution will form the bulk of demand for increased production, export markets on the Peninsula are conceivable over the longer period.

Further, despite widespread agricultural labor shortages and an overvalued rial, the area in vegetables, fruit, qat and other cash crops has increased. Ipso facto, these crops must be competitive economically. With a difficult terrain and scattered population, transport and marketing margins add considerably to the cost of imported commodities, e.g., wheat. Thus, although rainfed wheat may be high cost production, it remains competitive with imported wheat for rural household consumption. As rural infrastructure develops, however, this may no longer hold true.

4. Investment capital and labor must be available. Capital can come from vestigial remittances and Government investment of oil resources, either directly or through the private sector. Returning emigrants and increasing population can provide labor. With wider adoption of new technologies , less labor may be required than in the past.

Constraints to agricultural growth, however, (see Table I, page 16a) remain significant:

1. Macroeconomic policies cited above which limit growth prospects.

2. Water scarcity.

3. Lack of agricultural inputs either because of lack of familiarity, or due to growing restrictions on imports.

4. Lack of agricultural information and access to new technologies.

5. Population uneducated for absorption of agricultural information.

6. Lack of trained personnel to lead agricultural growth as well as foster related agro-industries.

7. Limited financial resources. As remittance income shrinks, farmers will need to rely increasingly on credit, which may or may not be available in sufficient quantity from existing financial institutions.

8. An unhealthy workforce, i.e., because of rural male emigration, women and children, the most vulnerable

groups, have borne a much higher proportion of agricultural labor responsibilities.

As can be seen from Table I, these constraints may affect potential agricultural growth more severely than other potential growth sources. Reducing or removing these constraints will, however, have significant positive effects on growth rates for other sectors as well.

Accordingly, USAID proposes the following program elements for accomplishment of a growth-oriented strategy:

1. Primary focus on agricultural production and productivity as the vehicle for growth. Because expansion of productive areas will be largely in the hands of the private sector, with some support from World Bank and other donor regional schemes, USAID's primary focus will be on productivity increases in small-to-medium scale agriculture, although some activities may affect larger scale producers as well. Emphasis will be on private sector growth as facilitated by the Ministry of Agriculture and Fisheries (MAF). Over time, USAID may become increasingly involved in non-farm rural enterprises as the other part of the rural growth equation.

2. Although a bilateral family planning project is not yet feasible given Yemeni policies and MOH problems, USAID will put high priority on dialogue to promote understanding of the implications of population growth and on implementation of private sector initiatives in the area of family planning services.

3. Additional program activities will focus on reducing constraints to growth in agriculture and other sectors:

a. Macroeconomic policy studies to provide information on how YARG policies are affecting growth, and policy dialogue (possibly in conjunction with the IBRD and IMF) on macro and sectoral barriers to production and productivity increases in the agricultural sector. (See Sections II.A. and II.B. below.)

b. Increasing the efficiency of primary education to foster a better educated workforce capable of understanding and using new technologies.

c. Training of skilled Yemeni personnel at secondary, B.S. and graduate levels to lead economic and technical change in agriculture and other growth areas. This may imply increasing focus of participant training on economics, business and public administration as well as technical skills.

d. More direct impact on water scarcity issues through cooperation with the UNDP on water policy development and implementation, possible completion of the Small Rural Water Systems project with emphasis on planning capability, and initiation of the Irrigated Farm Practices subproject.

e. Possible continuation of efforts to establish a healthier workforce through primary health care and child survival projects.

f. Use of P.L. 480 generations to support agricultural investment and possibly provide credit, encourage macroeconomic and agricultural sector policy changes, and support activities addressing educational, water and health constraints.

g. Downgrading the importance of institutional development from an end in and of itself to a means of removing specific constraints to growth. Project activities will still be expected to promote institutional development but as a by-product of more productivity-oriented tactics.

G. MAJOR PROGRAM MANAGEMENT ISSUES.

1. Budget levels are tight and will remain so for the forseeable future. To make room within a $22 million level for new emphases the Mission may need to terminate some activities, e.g., ISAI and Small Rural Water Systems, earlier than planned, and carefully focus remaining activities, e.g., Core and Horticulture, on production and productivity concerns. To this end, a reduction in bilateral health sector activities must be considered.

2. Program implementation methods in the agricultural sector remain unsatisfactory. Changing the Core lead university should help to create agricultural policy analysis capability and possibly water policy and planning capability. An open question is whether the exclusive use of the collaborative assistance mode is best suited for an agricultural productivity strategy in Yemen.

3. USAID staffing levels and composition will require realignment. Additional economic analysis and food aid management skills will undoubtedly be required. The Mission will review its capacity to manage effectively programs in agriculture, water and education. To support USDH resources, the Mission needs access to sources of macroeconomic and financial analysis expertise, for the most part funded outside the current project portfolio.

II. PERFORMANCE AND PLANS.

Because of the focus of this Action Plan on the foundations of a strategic revision, the long-range and intermediate objectives outlined and discussed in this section are a composite of existing and proposed strategy components. As the new strategy is more fully developed, it should be possible to quantify objectives increasingly with respect to growth and production/productivity measures.

A. MACROECONOMIC.

1. Strategy.

a. 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.

b. Intermediate Objectives:

(1) 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.

(2) 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.

(3) 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.

2. Constraints. USAID's macroeconomic policy dialogue with the YARG is in its infancy. Although the IMF and, to a lesser extent, the IBRD are now involved in negotiations on a Structural Adjustment Facility (and have a broader and more detailed understanding of the economy than that of the Mission), they too are new at the policy dialogue game here. Hampering all efforts is the extreme scarcity of YARG staff with sufficient economic sophistication to conduct effective policy dialogue. As the impetus for USAID policy dialogue efforts strengthened, USAID asked itself "with whom," and rapidly identified only four individuals within the Government who might be conversant in such talks. The Mission senses that, in some measure, policy dialogue efforts might also usefully be addressed at private sector individuals who have access to the highest official levels. This is a tactic which will need to be tested over time.

Assuming that appropriate policy dialogue partners can be found, probably partially on our own and partially with the cooperation of the IMF and IBRD, what are the greatest barriers to success? It will come as no surprise to anyone that the YARG's own desire for political stability in urban areas, within the business community, and among the powerful sheikns will be paramount. Yet within these groups there is no unanimity on economic policy. The business community has lobbied hard for total float of the rial in line with market forces, and retrenchment or withdrawal of import restrictions. Leftist elements have encouraged nationalization of strategic industries and foreign exchange reserves. Conservative Islamic forces decry the existence of interest rates per se and have defeated proposed bond issues in the People's Assembly. In

sum, a variety of forces pull and tug at national economic policymakers, while these same few policymakers seek a central path between liberal and conservative, rightist and leftist forces. On balance, however, Yemen's private enterprise tradition remains resilient and, even, resurgent in the wake of recent political events in South Yemen which stimulated anti-Communist sentiment. If the political climate is ultimately favorable, how can USAID maintain such a dialogue? Current staffing provides some expertise, but available staff have many other responsibilities. The Regional Economist/Amman provides bi-monthly support, but his visits are always shorter than needed. To help meet the macroeconomic requirement, USAID plans to strengthen its economic and analytic skill capabilities. More importantly, USAID will require continuing access to program funds for the conduct of special economic studies central to the analysis and pursuit of an economic policy dialogue.

3. Plans. USAID has concluded that efforts to effect policy dialogue fall into three distinct categories:

a. analytical work to improve Mission understanding of factors at work in the economy, i.e., to get ahead of the knowledge curve;

b. analytical work which accomplishes a. above but also seeks to lead Yemeni policy makers to conclusions which are difficult to support without empirical evidence; and

c. possible complementary effort with the IMF and IBRD on a structural adjustment facility, offering enhanced levels of P.L. 480 to lever YARG agreement to a policy framework including an exchange rate set by market forces, and

positive rates of return for mobilization of savings into productive investment.

Following is a list of desired analytical work for macroeconomic issues. Additional items are contained in sectoral sections below. The total proposed Mission analytical agenda is collated and costed in Annex B.

a. Review of labor market supply issues, possibly in conjunction with proposed regional study of emigration and remittances. Study would seek to determine level of continuing emigration, number of returning migrants, effect on wage rates and various factors at work in migration decisions, e.g., types of workers returning, types of workers still emigrating, skills acquired during emigration, patterns of employment after return. The study would also seek to develop alternative models regarding the cushion effect of vestigial remittance income, particularly in rural areas, and to estimate investment of private remittance income to date.

b. Development of a crude flow of funds model tracing in broad terms the origin of savings and how they are channelled to finance investments. Alternative scenarios with oil revenues could show how different uses of oil revenues, e.g., financing Government investments, auctioning off FX to the private sector, would affect investment patterns.

c. Reconnaisance of Yemen's financial system to build an informational base and identify ways to improve development banking; extend financial intermediation by the commercial banking system, improve rural credit and survey possibilities for tapping Yemeni external foreign exchange holdings to finance development within Yemen. This study

should also model changes in financial and capital markets to demonstrate how they affect savings levels and allocations.

d. Combination of flow of funds models and capital/financial systems models to predict effects on growth and employment. Ideally, this should result in a RAPID-type computer display for use in dialogue with Government officials.

At this stage in development of an analytical agenda the Mission is loathe to establish a concrete schedule for this list. Our ability to mount such an effort will depend on the composition of staff and the availability of financial resources far beyond the $20,000 in Project Development and Support funds allocated in FY 1987 for macroeconomic studies. We hope to use Program Week to refine the schedule and resource requirements associated with the agenda outlined in Annex B.

If the Mission is to capitalize on potentially opening doors in the context of an IMF-IBRD-USAID structural adjustment program using P.L. 480 resources as an additional resource "carrot," the Mission will require: a) a high level AID/W demarche on the IMF and IBRD to secure full partnership for USAID in such an approach; b) interagency agreement to provide additional P.L. 480 resources through Title I, Section 206, or Food for Progress mechanisms for the duration of the structural adjustment period.

B. AGRICULTURE.

1. Strategy. As noted previously, the Agency's "Blueprint" establishes a minimum standard of a 2% annual real rate of growth in per capita income as reflected in increases in employment, income and agricultural production. For reasons described in Section I. F., USAID has concluded that a

concentration on increased agricultural production and productivity is necessary to achieve this target and to enhance the incomes of Yemen's rural population. Accordingly, our long-term objective for the agricultural sector is as follows.

a. Long-term Objective. To support the YARG's Third Five Year Plan (TFYP) (1987-91) goal of a 3.5% annual increase in agricultural production. The Mission, however, believes this target is somewhat optimistic and has targeted a composite 3.0% annual growth goal consisting of the following subsector targets: cereals, 8.8%; fruits and vegtables, 31.4%; commercial crops, 24%; and livestock and fish, 12.9% The major cash crop, qat, is excluded from YARG targets for the sector even though it accounts for over 50% of the total value added agricultural contribution to the GDP. The Mission estimates that gat production will grow an average of 5% per year through 1991.

b. Intermediate Objectives. USAID's intermediate objectives in the agricultural sector focus on the identification and removal of constraints to increased agricultural production and productivity and, thereby, to increased rural incomes. To this end, the USAID will:

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

(2). 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.

(3). Increase the efficiency of on-farm water use.

(4). Increase access to critical agricultural inputs, including fertilizer, seeds, equipment, pesticides and credit.

(5). Encourage a re-examination of the roles and responsibilities of key institutions in the agriculture sector, e.g., the MAF, regional agricultural development authorities, the Faculty of Agriculture, the Agricultural Research Authority, the Secondary Agricultural Institutes and selected private sector firms.

(6). Encourage and provide leadership for donor coordination in developing strong analytical work and conducting policy dialogue.

2. Impact. Over the past year, USAID's focus was on the institutional development of the MAF. This has resulted in greater MAF attention to maximizing returns to resources being deployed in the agricultural sector and to the appropriate role of the MAF in fostering private sector agricultural growth. American-led expertise was highly successful in assisting the MAF develop the agricultural portion of the TFYP. In addition, the MAF requested USAID assistance in developing a section on private sector investments in agriculture for inclusion in the TFYP. Impacts in secondary and B.S.-level agricultural education are discussed under Section II.C.2.

In the area of agricultural production, Yemen's poultry population increased over 300% between 1980 and 1985. Layers increased by over 1000% between 1982 and 1985. 1986 statistics are still unavailable but undoubtedly reflect further

increases. A portion of this success is due to the demonstration effect of the Poultry Subproject (PETS). Although growth in the subsector is now constrained by difficulty in obtaining imported chicks and feed, it is clear that PETS techniques and facilities are being replicated by the private sector and PETS trainees are in great demand.

Since 1983, when the Horticulture Subproject (HITS) began, fruit production in Yemen has expanded by 43%. This is the result of yield and acreage increases. Undoubtedly some of this increase is due to the HITS subproject. Although fruit production and productivity are rising, much more varietal testing and applied research need to be done to identify varieties most appropriate to Yemen's many microclimates. Over the last year USAID has succeeded in largely disengaging from production targets established earlier by the MAF for HITS stations, and will continue only production incidental to further varietal testing and training efforts. Consistent with the Mission's redirected focus on agricultural production and productivity, the Irrigated Farm Practices (IFP) Subproject will be considered for pre-implementation activities in FY 1987-89. An agribusiness development activity which would incorporate a P.L. 480 Section 108 program may also be considered.

3. Constraints. As discussed in Section I.F., macroeconomic constraints such as exchange rates, import and price policies, balance of payments problems, budget restrictions and decline in money remittances do affect agricultural performance in Yemen. The sectoral constraints that impede the rate of agricultural growth are also mentioned in Section I.F., and are summarized below.

a. Policy induced distortions affect agricultural prices and production. Government policies also discourage the growth of a strong private sector in the areas of input distribution, marketing, and agri-industry.

b. The lack of reliable agricultural data hampers policy development and hinders decision-making by all producers. To reduce this constraint, USAID has devoted Core subproject resources to developing an area sample frame and statistical analysis capability. Much more needs to be done, however, to assist the MAF Planning and Statistics Directorate to collect, analyze and disseminate relevant agricultural data and to use these data for policy analysis.

c. Water scarcity is the most critical factor affecting agricultural productivity in Yemen. Water policy continues to be undefined and ineffective, e.g., private wells remain unregulated. (USAID planned actions against this constraint are discussed in Section II D.)

d. The availability of modern agricultural inputs is limited; e.g., the level of fertilizer use in Yemen in among the lowest in the world.

e. Adequate credit may not be available over the medium term.

f. The lack of well trained professional agriculturalists and managers. (Actions against this constraint are discussed in Section II C.)

g. Technology generation and transfer in Yemen are in their infancy. While a national research capability is

developing, an effective extension organizational structure is not likely to develop in the near future. The high television/radio coverage in the rural areas, however, provides a great opportunity for media-based extension, which could be particularly effective for disseminating information to a largely illiterate rural population. Greater attention to media-based extension is, in the Mission's view, highly warranted, particularly as Yemeni private sector firms are not yet at the stage where they can provide reliable extension information.

In addition to the macro and sectoral constraints discussed previously, the following additional constraints affect our programmatic efforts:

h. Although substantial levels of donor aid continue to flow to the agricultural sector, the lack of donor coordination has led to substantial inefficiencies in the allocation of assistance resources. Under the leadership of the UNDP Resident Representative, the donors have recently initiated regular sectoral coordination meetings. A recent meeting on agricultural programs highlighted the varying resources available and the need for a coordinated approach to agricultural projects. The donors almost unaminously expressed concern regarding their own analytical ability to formulate agricultural strategies. They urged USAID to take the lead within the group in developing a strategic framework and identifying emphasis areas for donor collaboration. Although a number expressed their unwillingness to engage in high profile macroeconomic policy dialogue, they agreed that their programs can only benefit from a better understanding of these factors and movement by the YARG on macroeconomic issues as a result of nudging by the U.S. and international financial institutions.

i. Finally, USAID's own budget constraint was highlighted in the CDSS review and remains considerable. Donor coordination can alleviate this constraint in some measure, but is not a panacea in that greater donor coordination efforts may require increased staff resources. Recent USAID successes in the education sector and in the development of the agriculture portion of the TFYP have indicated that the Mission should perhaps look to partnerships with central projects and to short-term rather than long-term technical assistance to ease budget limitations. These solutions, as well, have USAID staffing implications.

4. Programmatic/Management Actions and Benchmarks. (FY 1987-89)

a. FY 1987 (Second Half)

(1) Develop a nationwide agricultural survey to update the MAF's 1983 Agricultural Census data.

(2) Identify key areas of policy dialogue and studies needed to help affect policy reform. In this regard and a part of donor collaboration efforts, develop a matrix of Yemeni agricultural production and productivity potentials and constraints and relate this to on-going and planned donor assistance programs.

(3) Phase out of successful PETS while continuing dialogue on privatization of MAF pullet and egg production activities. Complete transfer of all aspects of the subproject to MAF.

(4) Initiate implementation of HITS evaluation recommendations including transfer of

research/varietal testing at Al Irra and Al Jarouba from the MAF to the Agricultural Research Authority (ARA), expansion of demonstration plot/extension activities and upgrading of support to Ministry plant protection staff.

(5) Initiate IFP pre-implementation activities including a survey of irrigation and associated farm practices in Sana'a Governorate under the Core Subproject's Irrigation Module.

(6) Review ADSP implementation arrangements to determine what changes are necessary to conform program elements to sustainable agricultural production and productivity goals.

(7) Working with MAF, CPO and the Central Bank, develop a consensus on appropriate uses of P.L. 480 generations to support strategic and policy objectives.

b. FY 1988

(1) Implement nationwide agricultural survey.

(2) Initiate key studies necessary to affect policy reform and further refine policy dialogue agenda. Initiate agricultural policy seminar series.

(3) Initiate actions regarding ADSP implementation arrangements to reflect the new strategy.

(4) Implement an agricultural private sector support plan including macro and sectoral policy dialogue, financial needs assessment, technology transfer and technical and managerial training.

(6) Implement remaining HITS evaluation recommendations.

c. FY 1989

Continue to reassess the validity of our strategy emphasizing agricultural production and productivity against opportunities in off-farm rural enterprises and other non-agricultural productive sectors. If agricultural production/productivity emphasis remains appropriate, re-examine areas of growth potential and progress in overcoming constraints.

5. Policy Dialogue Agenda/Impact. Overall macroeconomic agenda items are fully discussed in Section II. A. The Mission proposes the following sectoral-oriented analytical pieces:

a. A priority assessment of why fertilizer use is so low, what fertilizers are appropriate for Yemen's varied soils and microclimatic zones, and how private sector fertilizer importation and distribution could be encouraged.

b. A study of prices and incentives for agriculture. This study would include a broad reconnaisance and assessment of government policies and interventions affecting the demand for agricultural inputs, including irrigation, and agricultural outputs, including qat. This study will also analyze the comparative advantages of subsectors within agriculture and the opportunity costs of investments in the sector.

c. A related study of incentive/disincentive effects on agricultural production of Yemeni exchange rate

policies and practices. This study would assess the effect of the exchange rate on financial and economic returns on agricultural production, relative price ratios of inputs, and the effect of the real exchange rate on food production, imports and consumption in relation to perceived shifts in the structure of economic activity.

d. An analysis of agricultural credit needs and mechanisms for generation and delivery of credit resources.

e. A broad review of environmental degradation issues affecting the agricultural sector and development of policy and technical recommendations to slow or reverse the pace of deterioration.

The Mission hopes that the analytical and policy agenda outlined above will form the workplan for an expanded agricultural policy analysis capability under the Core subproject. It is clear, however, that outside analytical assistance will be required, through short-term assistance financed under the ADSP, central and regional projects, or project development and support. For estimated costs see Annex B.

6. Prospects for Success of Strategy. USAID believes that the strategy outlined here holds reasonably good prospects for success over the longer-term, particularly if constraints can be adequately addressed, implementation modalities improved, and donor coordination effected. Because the strategy is based upon analyses and assumptions which may not hold true over the longer-term, however, it will require continued monitoring at regular, e.g., 2-3 year, intervals to ensure that the opportunity cost of agricultural investments is not reaching unacceptably high levels.

C. EDUCATION AND HUMAN RESOURCES.

1. Strategy. As shown in Section I.B. above, Yemen's educational statistics are stark in comparison with the AID objectives established in the "Blueprint" and reflect one of the most serious constraints to the pursuit of economic growth through production and productivity increases. Only half of Yemeni children of primary school age enroll in school; of this half, only half, i.e., 25%, complete fourth grade. Only 32% of all Yemeni adults are literate. All of these figures belie major sex-based differences in the rates of educational attainment for Yemeni men and women. Moreover, these statistics profile a country where skills training for productive employment is largely lacking, resulting in reduced efficiency of supervision and on-the-job training. For the self-employed, particularly in agriculture, low levels of literacy and technical skills inhibit productivity by making technical information more difficult to obtain from extension systems. As a result, inputs are used less efficiently, and new technologies and marketing practices are adopted less readily. Yemen's cadre of trained personnel capable of providing leadership in technical, scientific, administrative, and management roles remains inadequate to plan, manage and implement development programs.

a. Long-Term Objectives.

(1) improve the YARG's capacity to analyze labor force needs and make informed decisions about the allocation of training resources;

(2) 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; and

(3) increase the efficiency and effectiveness of primary education and, thereby, expand access to basic education, providing a broader foundation for production and productivity increases.

USAID has not set quantifiable goals in line with those of the "Blueprint" for the human resources sector during the Action Plan period because the data base necessary for establishing reasonable goals and assessing impact does not yet exist. For example, the most extensive YARG study of primary school dropout and repetition rates seriously underestimates actual enrollment levels; thus, the accuracy of the underlying study is questionable. Moreover, the Educational Development Support Project (EDSP) (279-0074) will not generate quantifiable impacts until after 1991. The EDSP, however, does contain provision for establishing baseline and follow-up data necessary to measure project impacts. These impacts are projected to be:

(1) A 10% increase above the projected trend line in the proportion of the grade 1 cohort graduating from grade 6 in 6 years.

(2) A 2% increase (or 40,000 additional grade 6 graduates) in gross productivity rates of primary education.

(3) A two-year reduction in the average number of student years required to produce a grade 6 graduate.

(4) Increased levels of student achievement in mathematics, science and reading, as measured by criterion-referenced tests.

b. Intermediate Objectives (FY 1987-1989).

(1) bolster the YARG's ability to engage in an effective policy dialogue on education and training issues; and

(2) encourage organizational development that enhances the government's ability to utilize effectively resources available for education and development.

Since a key factor in achieving these intermediate objectives is adequate and accurate information on the human resources sector, USAID's FY 1987 and FY 1988 programs feature the following informational activities, pursuing a strategy consistent with Agency guidance for countries with inadequate data bases:

(1) Establish an educational management information system (MIS) for primary school performance and cost data.

(2) Establish an MIS for labor force planning data.

(3) Initiate studies concerning effective schools, internal efficiency and access.

(4) Initiate activities related to the assessment and development of the existing primary school mathematics, science and reading curricula.

In addition, USAID will encourage and monitor a shift in decision-making responsibilities for its Development Training III project to the YARG's Supreme Council for Scholarships and Training. The Supreme Council is expected to make key decisions regarding the allocation of funds available for training among different levels and fields of training. In shifting this responsibility, USAID expects the YARG to become more aware of the need to maximize returns on limited training resources. Moreover, this shift in decision-making is intended to encourage the growth of responsible YARG decision-making processes, a critical element of organizational development.

Over the Action Plan period, USAID will also continue to consolidate its accomplishments in agricultural education, designed to impact more directly on the trained agricultural personnel constraint to increased agricultural production and productivity. The Ibb School's transition to a Yemeni faculty is almost complete; staff training in the U.S. and third countries will continue for faculty of all three Secondary Agricultural Institutes. A feasibility study of additional SAIs has, at the request of the YARG, been moved up to FY 87. The Faculty of Agriculture at Sana'a University will graduate its first class during the Action Plan period (FY 1988). Activities will continue to adapt an appropriate, practical curriculum for student and Yemeni development needs, as well as to progress in the construction of the necessary physical plant as part of a multi-donor approach.

2. Impact. From FY 1984 through FY 1986, the primary intermediate objective of the human resources program was to establish effective working relationships with key YARG ministries and agencies, e.g., the Ministries of Education and Civil Service and Administrative Reform, the Central Planning

Organization and Sana'a University. The Mission has been highly successful in achieving this objective.

During early FY 1985, the Mission began to give increased priority to laying an analytical base for human resource development. The first step in this regard was the completion of an education sector assessment funded through the Improving the Efficiency of Education Systems (IEES) project, which led to additional requests in FY 1986 for assistance in the preparation of the education portion of the TFYP and the analysis of several critical education problems related to teacher demand and supply. Evidence of success in this regard is that the MOE has recently requested assistance in up-dating the sector assessment and looking at a broader range of issues including an examination of those related to educational costs and financing. The measure of success in the future, however, must be the impact of such studies on Yemen's human resources program. The EDSP evaluation plan contains provision to measure this impact in the area of primary education.

The success of USAID's effort in secondary agricultural education (SAE) can be measured by: 1) increased enrollment levels for the secondary agricultural schools; 2) continuing high demand for SAI graduates from both the public and private sectors; and 3) the YARG's request to accelerate the feasibility study for additional SAIs to FY 1987. It now appears clear that potential students, as well as potential employers, are fully aware of the opportunity which the secondary agricultural education sytem offers for productive employment in agricultural and related sectors.

USAID and the YARG were successful in assembling a financing package for construction of the Faculty of Agriculture at a time when Arab donor aid was falling dramatically. This

success was a reflection of the YARG's faith in the effectiveness of the USAID Faculty of Agriculture program, as well as the YARG's own move to adopt agricultural growth as their paramount objective for the Third Five-Year Plan.

3. Constraints. The recent EDSP design effort has made USAID much more aware of the extent to which the MOE, as well as other less well-endowed ministries, require support to carry on a dialogue. Support needs are for careful, collaborative analyses of existing programs, testing of solutions and building of consensus for change. The MOE has shown an interest in a policy dialogue based upon such support.

The impact of budget cuts on achievement of goals in the human resources sector was emphasized in the CDSS, particularly with respect to plans to expand professional training and initiate the EDSP. As a result, EDSP has been scaled down and components isolated into modules to facilitate budget adjustment. Targeted levels of academic training within the Development Training III project have been abandoned; levels will be programmed in accord with available funding.

Limitations on funding for the Agriculture Development Support Program have required that USAID scale back planned support to other SAIs substantially. With the SAE program clearly gathering momentum, USAID can reduce grant resources without jeopardizing the success of Ibb. Reduced funding for SAE, however, will reduce USAID's ability to bring other SAIs up to Ibb's level and will prevent USAID from supporting expansion of the SAE system, should the feasibility study so warrant. Necessary budget allocations for the Faculty of Agriculture (averaging almost 20% of the USAID program during the Action Plan period) have been protected to date; maintaining this protected status during static or declining budgets will

restrict USAID's ability to devote more resources to directly productive agricultural activities.

4. Programmatic/Management Actions (FY 1987-1989).

a. FY 1987 (Second Half).

(1) Complete organizational development and training plan study for the Ministry of Oil and Mineral Resources.

(2) Approve the EDSP and complete deobligation/reobligation actions for FY 1987 funding.

(3) Approve workplans related to development of educational and labor force planning MISs to be undertaken by the IEES and Basic Research and Implementation in Developing Education Systems (BRIDGES) projects.

(4) Resubmit amendment to increase funding for the Development Training III project for approval.

(5) Select EDSP technical assistance contractor.

(6) Conduct feasibility study for additional secondary agricultural institutes.

(7) Determine additional possibilities for phasing out of the ISAI subproject more quickly without sacrificing objectives of quality improvement in other SAIs.

(8) Complete contracting arrangements for FOA subproject, including selection of technical assistance

contractor, selection of construction and construction supervision contractors.

b. FY 1988.

(1) Approve IEES and BRIDGES workplans for MISs and "effective schools" studies.

(2) Conduct EDSP's general curriculum review and assessment and first formative evaluation.

(3) Conduct cross-sectoral participant training impact study.

(4) Implement ISAI phase-out plan while working with MOE and other donors to develop future course of action for SAE system expansion, if feasible.

(5) Accelerate development of linkages between FOA, MAF, ARA and other agricultural organizations, e.g., through the establishment of an Agricultural Policy Institute at Sana'a University.

c. FY 1989.

(1) Approve IEES and BRIDGES workplans for MISs and "internal efficiency" studies.

(2) Complete EDSP curriculum evaluation and effective schools studies and decisions on directions for Year 2 workplan.

(3) Implement recommendations of cross-sectoral training impact study.

5. Policy Dialogue Agenda/Impact. The USAID and YARG are not currently in a position to engage in effective, substantive policy dialogue for the human resources sector. The key constraint is lack of information rather than potential issues. An example of an issue relates to the YARG's commitment, for cultural, social and economic reasons, to Yemenize the teaching force now dominated by expatriates. Teacher training enrollments increased rapidly following the introduction of training stipends. The long-term impact of stipends on graduates entering and remaining in the classroom, however, is unknown. USAID argued in the sector assessment that shifting the stipend to teacher salaries would do more to ensure retention in the profession than student stipends but had no evidence to support this contention. Policy dialogue, therefore, could move no further than an exchange of philosophical positions. For this reason, USAID's intermediate objectives emphasize developing MISs and carrying out empirical studies on policy issues such as teacher incentives. Our assumption is that these analyses will provide the MOE with information needed to define problems, test solutions and build a consensus for change and, thus, move the policy dialogue agenda beyond the impasse of opinion.

Although USAID's program has not yet achieved a major public shift in YARG educational policy, the MOE has become willing to look at issues of educational efficiency in addition to its previous emphasis on expanded access, and to use empirical data in the analysis of educational policies and programs. USAID's biggest breakthrough in this regard occurred in mid-1986, when the Ministry was able to use data developed by IEES consultants to analyze World Bank proposals for future teacher training projects and its own performance with respect to the use of expatriate teachers. Teacher demand projections made by the

World Bank were significantly below those made in the IEES study because Bank planners used extrapolated 1975 census data rather than recent actual enrollments. Using simple computer spreadsheets, IEES consultants analyzed district-level teacher supply and demand data and demonstrated that macro-level shortages were due partly to misallocations at the district level. The future task will be to encourage ministry officials to use such information in programmatic decisions such as teacher assignment.

6. Prospects for Success of Strategy. The existing strategy has a reasonably good chance of success in the area of primary education. USAID and the MOE, through the education sector assessment, subsequent studies and the design process for the EDSP, have reached a fairly high level of agreement on the key problems and sequence in which they are to be addressed. Several MOE officials participated in design of the EDSP, so that a fairly broad-scale understanding of the project's objectives exists within the ministry. USAID and the MOE also agree on the need to document the strengths and weaknesses of the present system and to test and demonstrate the advantages of proposed solutions before their large-scale dissemination.

USAID is less sanguine about the chances of successfully transferring responsibility for general training to Yemeni counterpart entities as authority in this area is too diffuse and social and cultural pressures interfere with objective decision-making. It is hoped that the joint production of increasingly sophisticated projections of labor force supply and demand will serve to focus YARG entities more on training for development needs. Additional pressure from USAID on the need for analytical and managerial training to support

longer-term production and productivity gains could facilitate effective decision-making by YARG counterpart entities.

USAID's pursuit of a cadre of Yemeni agriculturalists trained at the secondary, baccalaureate, and graduate levels remains appropriate, although the impact of these programs is long-term. To be sure, there will be philosophical questions regarding the relative efficiency of increased investments in primary education versus those in higher levels of agricultural training. Given Yemen's current shortage of trained personnel at all levels, USAID has concluded that a mix of both is required. With the level of investment and commitment already made to agricultural education, it is too late to re-open this question on more than a philosophical basis. The more appropriate goal is to ensure that USAID's sectoral investments continue an appropriate mix over the longer term.

D. WATER RESOURCES.

1. Strategy. The Agency's "Blueprint" does not deal directly with water scarcity issues except as subsidiary concerns related to growth, hunger and health objectives. Yet in Yemen, as in many areas of the Middle East and Africa, inadequate water resources are a major constraint to development. The problem has both macro (growth, agricultural and industrial development) and micro (household labor use patterns and health) dimensions. In the past, USAID's efforts in the water sector tended to focus largely on micro dimensions through efforts designed to expand the water and sewerage system in Taiz and increase the availability of rural potable water systems. With external financing resources diminishing, it is now clear that over the longer term Yemen will need to draw increasingly upon internal resources to finance continuing

expansion of urban and rural water services. To minimize required investment levels, increased efficiency is needed in allocation of water resources and investments. It is a curious cycle that, while increased production and productivity are required to finance water investments, water scarcity itself is one of the greatest constraints to production and productivity increases.

Increasing water scarcity has occurred as a result of rapid increase in household water consumption and the development of irrigated agriculture, both generated by increased incomes of the earlier period. Their effect is felt more acutely around cities where urban water supply systems are in place and irrigated agriculture and industry tend to develop. Although little data is available for rural areas, it is generally believed that, with the exception of the Tihama, Marib and al-Jawf, water availability is decreasing due to overpumping and the lengthy drought period. The situation is particularly worrisome in the Sana'a Basin where the National Water and Sewerage Authority's western wellfields are going dry. Nearly all observers agree that underground water resources are being mined. Only the recent Russian study holds hope that a deeper aquifer exists, but little is known of likely extraction costs. With inefficient irrigation consuming the largest portion of scarce water resources, it is clear that the current overpumping situation is a classic market failure, as the costs of additional drilling are too low to prevent overexploitation of existing resources.

With these considerations in mind, USAID proposed in its 1986 CDSS a strategy element "to assist the YARG in developing a rational water policy and the institutional capability to develop and allocate efficiently both rural and urban water

resources." In the context of the strategic revision signaled here USAID would revise this objective as follows:

a. 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.

b. Intermediate Objectives.

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

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

(3) To enable the Rural Water Supply Department to expand its planning, analysis and project implementation capabilities as well as enhance its ability to generate financial resources from donor and Yemeni sources.

2. Impact. With completion of 156 water systems for 140,500 villagers since 1979, the Mission's Small Rural Water Systems project has contributed to the World Bank's finding that in 1986 potable water is available to 25% of the rural population as compared to 20% in 1983. The 1986 evaluation concluded that, while exceeding targets for delivery of systems, the project has paid insufficient attention to increasing the capabilities of the Division to function without external assistance. Building upon these findings, the Mission, the contractor and the Rural Water Supply Divison have developed an implementation plan for the remainder of the

project which focuses on Yemenization of skills such as: development of a management information system on rural potable water problems; planning and policy analysis capability; and capacity to plan water projects and supervise their construction which will increasingly be contracted out to private sector firms. The plan also incorporates components to assist RWSD in generating and managing higher levels of donor assistance, as well as in moving to adopt local contribution criteria as a general rule for water system financing. The Mission is now reviewing the various factors which will impact on the feasibility of implementing this ambitious plan and expects to reach some conclusions shortly. Whether or not the entire plan is adopted, it is clear that the process of working with RWSD on the plan has been a useful exercise in institutional development, vetting issues regarding RWSD's own mandate and future role in the water sector.

With USAID's planned lead role in the development of a Sana'a Basin Water Resources program stymied by budget cuts, we have been forced to defer to the interests of other donors in this crucial element of national water planning and policy development. The UNDP has recently developed a PID-like document entitled "Assistance to the High Water Council" under which a Yemeni Master Plan for water resources would be developed and institutional capacity for its further development and implementation established under NWSA to support the High Water Council. USAID expects to work closely with the UNDP and other donors to ensure that the proposed program reflects USAID growth objectives for the water and agricultural sectors to the greatest extent possible. Needless to say, our ability to contribute financially would facilitate our full involvement in this key area.

3. Constraints. There are three primary constraints to the success of our water strategy. First is the political reality that even the most cogent Master Plan will depend for its success on the YARG's political will to enforce it. As YARG control over the countryside expands and deepens to effect revenue generation, such political will should become easier to muster.

The second constraint is the widespread lack of human resources to effect water policy development and implementation. Because of the magnitude of U.S. and other donor investments in the water sector, this constraint may be less problematic in water than in other sectors. It is, nevertheless, a primary constraint to success in USAID's efforts with the Rural Water Supply Department.

Finally, USAID's own budgetary and staffing situation is a serious constraint. Resources devoted to the water sector are projected to end soon. Levels available for agriculture, after FOA requirements are met, are insufficient to allow initiation of the Irrigated Farm Practices Subproject. No funds have been programmed within the $22 million planning level for macro-level water policy work with or without the UNDP. If AID/W concludes, as do the Mission, the IMF, the World Bank and the UN, that achievement of growth objectives is unlikely absent companion work on alleviating the water scarcity constraint, budget re-allocations will be required. Should this happen, USAID may require additional staff expertise to direct water sector activities and perform important donor coordination.

4. Programmatic/Management Actions (FY 1987-1989).

a. FY 1987 (Second Half).

(1) Reflect agreement on remaining 044 implementation plans in appropriate documents; begin implementation.

(2) Work with UNDP to refine project proposal for assistance to the High Water Council and determine areas for future USAID involvement.

(3) Review and revise Irrigated Farm Practices SPP as required, possibly with assistance from Colorado State University, to produce a streamlined project proposal focusing on private sector adoption of water conserving technologies, to commence in FY 1988.

(4) Work with the MAF and Colorado State to determine role, if any, of Core subproject in carrying out water strategy.

b. FY 1988.

(1) Participate with UNDP and other donors in initiating water planning project.

(2) Initiate Irrigated Farm Practices subproject.

(3) Implement decisions regarding role of Core subproject in water strategy.

c. FY 1989.

(1) Evaluate 044 accomplishments.

5. Policy Dialogue Agenda/Impact. Because USAID's entire water strategy is designed to engender policy dialogue on water scarcity and allocation issues, policy dialogue agenda items cannot be segregated from programmatic objectives and activities. Throughout all proposed activities, and in the process of donor coordination, USAID will emphasize the need to keep growth and production/productivity objectives in the forefront of resource allocation decisions.

6. Prospects for Success of Strategy. USAID is currently assessing prospects for success in achieving rural water planning and management objectives. Irrigation efficiency efforts should have a relatively quick and direct pay-off if properly targeted and implemented. Success prospects on the macro policy level are uncertain; this is a "high-risk, high gain" proposition which can only be enhanced through major donor coordination efforts.

E. HEALTH AND POPULATION.

1. Strategy. The "Blueprint" establishes reduced infant and child mortality goals which stand as a largely *prima facie* developmental objective. Yemen's infant and child mortality rates are more than double (135-170/1,000 and 70/1,000, respectively) the Agency goals, and life expectancy is 20% less than the Agency standard. Yemen's indicators in family planning and nutrition are abysmal as well. Only 5% of married women of reproductive age have access to family planning, against an Agency goal of 80%. Although Yemen's average caloric intake is 90% of the accepted standard requirement, consistent with the Agency target, 50-60% of Yemeni children are malnourished due to improper dietary practices and high incidence of diarrheal diseases, against an Agency goal of 20%. Also, the high population growth rate

(3-3.3%) combined with a sharp tightening on food imports, points toward a worsening nutritional situation over the next two years. The high population growth rate reflects an almost maximum fertility rate and a birth interval average of only 12 months, which keep population growth up despite high infant and child mortality. Although biostatistical data at both the national and regional levels are limited, it is clear that Yemen's health statistics place it among the 20 countries of the world with the lowest health care indices. For this reason, the Agency has designated Yemen as a child survival emphasis country.

USAID recognizes that the appropriateness of worldwide emphasis on child survival has been fully discussed within AID/W, within the development community, and with the Congress. The need and importance of child survival programs are obvious, especially in the dreadful infant and child mortality situation existing in Yemen. However, as we sought to implement a sectoral program that was at least oriented toward our strategic framework for supporting increased production and productivity, several issues became apparent:

A successful child survival program in the Yemeni context is in many ways considered a threat to the status quo:

a. by highlighting the role of women in a society where female seclusion is still the accepted norm;

b. by promoting the acceptance of family planning and thereby stirring up a religious controversy;

c. by competing with the private practices and pharmacies of the physicians, nurses and pharmacists who staff the Ministry of Health;

d. by contributing to an even higher population growth rate and stymieing the nascent efforts of planners to provide basic public services.

Although the first two "threats" are acceptable areas for the donor community to attempt to overcome through carefully planned interventions, the latter two indicate that enthusiastic Yemeni counterparts are likely to be few and far between. Therefore, child survival is neither politically attractive to the YARG, nor is effective institutionalization a likely prospective.

USAID is loathe to be negative on the prospects for Yemeni child survival. We have, however, grown frustrated by the continuing level of effort required to make headway in our health strategy. Our long-term objectives, "to develop a framework for significantly reducing infant and child mortality rates through the establishment of replicable model health care programs, and to increase YARG awareness of the implications of rapid population growth and receptivity to population programs," remain largely appropriate. We question, however, our ability to make significant progress against the health objective over the Action Plan period. The strategic question thus becomes: to what extent should we shift bilateral health care funds into more productivity-oriented programs?

2. Impact. The impact of our health, population and nutrition program over the past year has been mixed, reflecting the long lead time required to initiate activities within a poorly staffed MOH, which does not yet have the leadership, skills, commitment or resources required to undertake broad national programming activities. Progress is measured below against five areas of concentration:

a. Completion of the bilateral Tihama Primary Health Care project (TPHCP), leaving behind a functioning model program. After six years of support, the TPHCP is now beginning to function as a model for the organized delivery of PHC services. Sixteen additonal primary health care units were established in 1986 versus 7 targetted. Training expanded rapidly in 1986 and the first M.P.H. level trainee returned and assumed firm control as Project Director. A health survey completed in 1985 found immunization rates to be at least 15% higher at TPHCP sites than elsewhere, and ORS use at least 24% higher. A targeted rate of 80% utilization at TPHCP sites by the end of 1987 is not unreasonable.

Although potential impact over the next five-year period is high, sustainability of newly installed systems upon project completion is suspect, if trained staff leave and services deteriorate as has happened to other donor supported projects, and if YARG efforts to curtail the budget deficit continue to reduce available financial resources. An evaluation recently completed will recommend a limited extension, but highlight continuing replicability and sustainability issues.

b. Availability of ORS throughout Yemen (regional project). The MOH has provided UNICEF packets through its health services for two years with little effort to promote ORS use actively or to document distribution. USAID, finding that large-scale ORS distribution capability is limited to the parastatal drug firm YEDCO, in 1986 provided technical assistance through PATH in local packaging and promotion through YEDCO's extensive distribution network. Equipment tenders were issued and package design is underway with pictoral instruction. Yemen's under-five population is about 1.5 million; YEDCO will be able to supply ORS at any demand

level. UNICEF has agreed to purchase packets from YEDCO to replace their current imports for the MOH. When packets are standardized for both public and private distribution, MOH-sponsored television messages and related educational efforts will promote them. Production should begin by September, 1987. Impact, measured by sales figures, should be high by the end of 1988.

c. Establishment of MOH capability to administer PHC/Child Survival services in rural areas not yet covered by donor projects, with 80% immunization coverage of the prime target (bilateral). This has been the most difficult target to achieve in view of recurrent cost constraints, difficulties in transferring management and supervision skills, lack of motivation and skills among MOH physician administrators, lack of communication between regional and central MOH authorities, the almost complete lack of a national drug and equipment logistics system, and the MOH's refusal to date to accept and implement the child survival project signed by the Central Planning Organization. Regional capability in areas assisted by donors, however, is relatively high, which influenced USAID's development of a child survival project aiming to extend PHC to six governorates now lacking donor assistance. During 1987, possible impact will be determined by (1) whether or not the MOH agrees to the child survival project and delegates supervisory authority for use of project resources to the regions no later than March 31, 1987 and (2) initiation of donor coordination meetings for the planned national immunization campaign. The Mission has extended the time to meet the initial condition precedent to March 31, 1987 for the Child Survival project and will recommend deobligation of project 082 funds rather than offer any further extension. It also appears that lack of planning for the 1987 EPI campaign may lead to delays in its implementation.

d. Analysis and interpretation of the 1986 census results for YARG policy makers in order to stimulate awareness of the need for a population program (regional project). The Central Planning Organization has not requested assistance with demographic analysis because of an expansion of UNFPA assistance in this area. USAID has requested funds from the Regional Population project to update the RAPID computer presentation. Impact of an updated RAPID presentation will be greater if it is developed for national television, presented by Yemeni, and available for use in future family planning workshops and by Sana'a University instructors.

e. Training of a sufficient cadre of health personnel in family planning to operate a large-scale intervention effort (central and regional projects). Progress will be assessed through an internal evaluation in 1987. In 1986, basic family planning information workshops were held for the Women's Associations and the Girl Guides. Additional workshops are planned under the auspices of the Local Councils for Cooperative Development. A family planning curriculum for nurses and auxiliary medical personnel was completed for the Health Manpower Institute in 1986, and a more detailed curriculum for Sana'a University's Faculty of Medicine is planned through the Johns Hopkins International Program in Obstetrics and Gynecology.

3. Constraints. The chief constraint to progress in improvements in delivery of health, population and nutrition services is the unlikelihood that the MOH can develop as an effective institution during the intermediate period. It is conceivable, and worth consideration, that a participant training effort devoted to public health might begin now to tip the balance for improved future USAID and other donor cooperation with the MOH on health care programs.

A continuing constraint to health care in Yemen is the lack of a reliable data base against which to measure progress. If the proposed TPHCP extension is funded, an update of a baseline survey designed for sensitivity to various socio-economic factors can be undertaken.

The progress of TPHCP over the past year, the rapid pace at which assistance to ORS production has proceeded, and the attendance at family health workshops are encouraging, but their limited successes reflect the contributions of well motivated businesses and individuals rather than public sector institutional development. In the Yemeni context, however, it is difficult to gain access to businesses and individuals in the health care context without at least the tacit support of the MOH.

Over the longer term, the seclusion and near universal illiteracy of Yemeni women will make it significantly more difficult to effect improvement in infant and child health. Female education and creeping social change in rural areas will increase female access to health education and services, contributing to long-term changes in infant and child health status.

4. Programmatic/Management Actions (FY 1987-1989).

a. FY 1987 (Second Half).

(1) In view of the issues discussed herein, review the plans for the health, population and nutrition sector over the coming year.

(2) Complete an internal review of population activities and identify an institutional framework

and logic for future assistance; draft a plan for assistance from regional and centrally funded projects.

(3) Review the private sector feasibility study funded by the regional nutrition project and submit a Phase II plan to ANE/TR/HNP by March 31.

(4) Satisfy the initial condition precedent for identification of counterparts for implementation teams in the Child Survival project by March 31 or terminate the project.

(5) Complete cooperative agreements between USAID, YEDCO, UNICEF and the MOH for public and private sector distribution of YEDCO-produced ORS prior to initiation of private sector marketing.

b. FY 1988.

(1) Initiate small, focused regionally funded private sector nutrition project.

(2) Conduct ORS utilization studies in cooperation with YEDCO; develop knowledge and use targets for ORS marketing.

(3) If the TPHCP is extended, conduct the second MCH survey for impact information.

(4) Complete a paper on private sector health options, particularly with regard to social marketing of ORS, foods, and contraceptives. (Note that this paper, promised with the Action Plan, has been delayed due to the workload associated with child survival negotiations.)

c. FY 1989. If implemented, evaluate the Child Survival project.

5. Policy Dialogue Agenda/Impact. The "Blueprint" agenda focuses on (1) population growth, (2) greater reliance on non-government interventions and (3) recurrent cost issues, e.g., user fees. The Ministry recognizes recurrent cost constraints but is committed to the concept of free public health services. User fees as a solution to recurrent costs will not become urgent while substantial donor assistance is available and unconditioned on recurrent cost solutions. However, a new WHO project involving community participation in cost sharing, along with the TPHCP's finance study, may provide a better basis for dialogue.

MOH interest is minimal in USAID-sponsored private sector ORS production and food fortification and processing activities. The MOH emphasis is on providing services rather than regulatory control. The MOH is, however, aware of regulatory problems in the face of constant applications for new, unregulated private clinics and hospitals. USAID dialogue on proper roles of government is, nevertheless, unlikely to bear fruit in the near term.

Prospects are somewhat better for an intensified policy dialogue on population growth concerns using recent census data and computer applications previously used successfully here. A complicating factor, however, is the widespread suspicion that the YARG chose to inflate the census figures to retain its IDA eligibility. Thus, while the census contains ample evidence of serious population problems, USAID computer models based on census data could be widely discounted by those in the know regarding the real census totals.

6. Prospects for Success of Strategy. By virtually any standard, prospects for success of USAID's established health strategy remain low over the short-to-medium terms. Strategic elements in population, nutrition and ORS utilization have somewhat greater potential, given that they now deal with non-MOH organizations. Considering the gap between YARG policies and capabilities, as exemplified by delays in planning the 1987 national immunization campaign, a strategy focusing exclusively on MOH interventions as a framework for reducing infant and child mortality is probably unworkable. If USAID remains an active participant in the Yemeni health sector, a new strategy will be required.

Finally, although any health strategy must assume that improved health contributes to a more productive labor force over time, it must also emphasize maximizing the cost effectiveness of resources spent on health, just as educational programs focus on increasing the efficiency of educational systems.

III. SPECIAL CONSIDERATIONS.

A. PRIVATE SECTOR ACTIVITIES BY SECTOR. State 399592 indicated that the recent review of USAID's new Project Implementation Reports questioned the extent of private sector activities, given the Mission's previous decision to conduct private sector activities within individual sectoral programs. USAID wishes to note that this was a choice forced upon us by budget realities rather than our own preferences. In fact, considerable preliminary work had been done laying the foundation for a basket private sector initiatives project and an agribusiness development project commencing late in the CDSS period. Our preference would have been to initiate the private sector initiatives project a year ago, considerably facilitating coordination of the patchwork of efforts now dependent upon central and regional funding. Following is a listing of on-going USAID private sector activities, by sector:

1. Agriculture (Agricultural Development Support, 279-0052)

Core Subproject: USAID funding of analyses for and input to the agriculture portion of the Third Five Year Plan incorporated significant amounts of work on the role of the private sector in fostering agricultural growth. Of particular value was the Sharif report on constraints to private sector participation in agricultural sector expansion which, at the request of the MAF, is being excerpted for inclusion in the Third Five Year Plan.

ISAI Subproject: Over the past 18 months the ISAI project staff has begun collaborating with private sector firms to assess demand for SAE graduates and absorb lessons for

curriculum revision based upon private sector employers' needs for mid-level agriculturalists.

PETS Subproject: The PETS team has worked initially with commercial broiler producers and later with commercial egg producers and potential hatcheries to determine the status of these new industries and identify problems susceptible to PETS assistance. More recently, the remaining PETS staff person has been the driving force in USAID's effort to lead the MAF into privatization of egg and pullet production operations. Capitalizing on MAF financial difficulties in maintaining existing operations during the FX shortage, the advisor has lined up potential private sector buyers and/or lessees and provided the analytical foundation for USAID's privatization discussions.

HITS Subproject: This subproject has maintained close contact with various private sector firms in the horticulture subsector through the HITS private sector advisor. This advisor has been responsible for producing much of the pre-feasibility work for the horticulture subsector done to date with USAID funding. Although private sector emphases within the subproject are expected to change as a result of the recent evaluation, there is little doubt that the project has a good data base and level of cooperation with Yemeni commercial fruit producers.

2. Education and Human Resources. Development Training III (279-0080) includes an amount earmarked for private sector training. USAID recently reached agreement with the Federation of Yemeni Chambers of Commerce and Industry on a draft private sector short-term training plan for CY 1987. The first participants to be trained under this plan depart for the Jordan Institute for Management in late March. Others, for an

estimated total of 60 private sector participants during CY 1987, will follow at later dates.

3. Water. The Small Rural Water Systems (279-0044) project has developed the capability of nine private sector construction firms to construct rural potable water systems in accordance with approved standards. Training of additional private sector contractors is projected for the balance of the project.

4. Health. USAID has two health-related private sector activities in process with regional funding:

ORS production, discussed elsewhere, working with the parastatal Yemen Drug Co. (YEDCO) to meet total Yemeni demand for ORS. (This activity was financed by the Regional Private Enterprise project as a buy-in to PATH.)

Food fortification potential and review of private sector nutrition issues financed under the Regional Nutrition project. An adequate research base has now been established for movement into an implementation phase in FY 1987 or FY 1988.

5. General (Multisectoral). Although USAID's technical assistance activity with the Federation of Yemeni Chambers of Commerce and Industry proved less than satisfactory, USAID has had growing success with the International Executive Service Corps (IESC) program financed with Regional Private Enterprise funds. Demand from Yemeni firms, as well as YARG and parastatal entities, has been so high that available resources will not stretch to cover assistance to all firms expressing strong interest. Moreover, the program has reached the stage where the Mission and AID/W

need to identify funding for the establishment of a Yemen Country Director for the IESC. With a growing level of requests from firms across the productive sectors of the Yemeni economy (and heavy interest from agribusinesses) USAID believes that this already successful effort is one which should be carefully nurtured with available central and regional funds.

B. ROLE OF FOOD AID IN STRATEGY.

1. Relationship to Strategy and Program. Mission budget reductions and the YARG's response to a worsening economic situation have recently combined to enhance the potential for P.L. 480 Title I as both a developmental and policy dialogue tool. Self-help measures associated with P.L. 480 Title I largely reflect the priorities of the grant program. The YARG has made additional proposals for support to the IBRD's Wadi Jawf Rural Development Program and small catchment dams which are consistent with USAID's strategic emphases in the agriculture and water sectors. In the intermediate period, however, the P.L. 480 Title I program may be used increasingly to encourage macroeconomic and agricultural policy analysis; further, higher commodity levels may yet serve as valuable levers toward policy reforms. For more discussion of the role of food aid in policy dialogue see Sections II.A.2. and II.A.3. Thus far, approximately 40% of the proceeds generated from sales has been used in earthquake reconstruction in coordination with other donors and the YARG; an infrastructure improvement project at Sana'a University has recently been approved. In light of the on-going People's Assembly review of proposed activities, the Mission believes that approval of several other projects under the Ministry of Agriculture and Fisheries and the Faculty of Agriculture is imminent. Sales proceeds from the FY 1987 agreements may be used to support agriculture and water sector projects in

conjunction with existing Mission activities; discussions have been initiated on a Section 108 program, an alternative which the Embassy and AID are promoting strongly, given its potential for private sector development and the financial advantages it holds for the YARG. The YARG has concluded that a Section 108 program is not possible for FY 1987, given ongoing efforts by the monetary authorities to reduce excess liquidity, but has not ruled out the possibility of a Section 108 program for the future.

2. Country Food Situation: Constrained by rugged, arid terrain, inadequate water resources and a lack of technical expertise, agricultural performance has varied by sub-sector during the last years. While vegetable and fruit production has increased, marginal lands previously used for sorghum, millet and wheat production have gone out of production. Wheat production levels for CYs 1983-1986 were 34,170 MT, 63,000 MT, 72,0000 MT and 60,000 MT respectively (new MAF figures), while imports for those years stood at 357,000 MT, 463,000 MT and 419,000 MT and 621,700, respectively. The YARG has approved an allocation of 715,000 MT of wheat for 1987, including 165,000 MT for the local flour mill. Yemen does not produce rice, but for CYs 1983-1985 imported 38,800 MT, 48,400 MT, 47,600 and 54,700 MT, respectively. Food grain imports are expected to increase by approximately 15% annually in the medium term, despite economic production potential in rainfed areas.

3. Policies and Reforms to be Supported. The availability of P.L. 480 Title I commodities can assist the Yemen Government in weathering this period of increased political pressure without resorting to more stringent economic controls which would be detrimental to the economy in the long run. In the past, the absence of government controls in the

marketplace made policy reforms based on P.L. 480 Title I sales unnecessary. However, recently applied controls which inhibit private sector activity and the importation of vital agricultural inputs merit Mission attention. Relevant Mission policy dialogue issues have been fully indentified previously in Sections II. A. and B.

4. Use of Proposed Commodities. Proposed wheat and rice will be sold by the Yemen General Corporation for Foreign Trade and Grain to approximately 20 wholesalers and various governmental agencies. Sales proceeds are kept in a special account. Substantial profits have been realized on sales thus far making continued and larger P.L. 480 Title I sales very attractive to the YARG.

5. Local Currency Use: See section 1. above.

6. Status of Storage and Distribution Capacity. Grain storage capacity remains at a level considered appropriate for a favorable Bellmon Determination and unloading capabilities are adequate. Although improvement in bulk handling internally would be welcome, no major problems with storage and distribution have arisen in the three years of the program. In 1985 alone, over 650,000 MT of grain imports were handled at the port of Hodeidah without incident.

7. Disincentives to Local Production. It is evident that Yemen's producer price structure for locally grown wheat encourages local production in rainfed areas. No Bellmon issues exist with respect to rice.

C. FINANCIAL ISSUES.

With the development assistance budget locked at a maximum of $22 million through FY 1989, USAID's financial issues revolve

much more prominently around mortgage concerns than pipeline problems. USAID perhaps was more fortunate than other Missions, in that a substantial pipeline was in place prior to the enactment of Gramm-Rudman-Hollings reductions. This has enabled the Mission to absorb serious cuts, while buying time for streamlining and re-focusing of existing projects. Unfortunately, the biggest negative impact has been on new projects and activities central to the conduct of the Mission's strategy, i.e., EDSP, IFP, and private sector initiatives. While the EDSP funding impasse appears to have been resolved through deob-reob actions, modularization, and creative franchising of project components under central projects, funding for initiation of the IFP, private sector initiatives and policy analysis and dialogue remains nebulous.

On the mortgage side, the Mission has taken the initiative informally to reduce authorized LOP funding levels through development of new project implementation schedules and scaled-back workplans. Approved ADSP project papers amount to over $137 million in funding requirements. Actual projections, however, currently amount to approximately $119 million, of which approximately $79 million will be obligated through FY 1987. This will leave a post-1987 ADSP mortgage of around $40 million through FY 1996, exclusive of a probable Core subproject extension beyond FY 1990.

With Mission approval and high priority allocation of funds for the EDSP within EHR account totals, the major remaining issues are the aforementioned Irrigated Farm Practices subproject, and additional requirements for Development Training III (080), for which authorized funding will be exhausted in FY 89. USAID will be re-submitting the 080 amendment during FY 87, now that budget levels appear to be bottoming out, and education sector priorities have been established. Finding funds for continued

080 increases, IFP, a contribution to the UNDP water effort, private sector initiatives and policy analysis/dialogue will be the financial issues requiring attention during this Program Week.

D. MANAGEMENT AND WORKFORCE ISSUES. As discussed above heightened emphases on macroeconomic, food aid management, water, and private sector concerns imply additional U.S.D.H. staffing requirements which may not be fully offset by concomitant decreases in other areas. While the Mission will make every effort to use U.S., FSN, and TCN PSCs to meet these requirements, it is inevitable that some of these skills will not be available through other than direct-hire sources. It is too early to discern what will be actual shortages in U.S. and F.N.D.H. staffing ceilings. This issue too must be considered as agreements are reached on sectoral strategies during Program Week.

IV. CONCLUSION

USAID recognizes that the logic of this presentation implies formal revision of our CDSS over the next year. But CDSSs and updates are labor-intensive and divert staff time which might most profitably be spent over the next year on implementation accomplishments. More importantly, however, there is a need for additional analysis related to the agricultural strategy presented here which is unlikely to be completed over the next year. In addition, it would be preferable to allow economic forces to play themselves out with the advent of oil revenues in 1988, before taking another look at continuing macroeconomic issues. We thus urge AID/W to agree to a formal planned CDSS revision during FY 89, by which time further analyses can be completed and a number of economic issues raised in this document will have been resolved, in one way or another. If AID/W concurs, we will use the strategy outlined in this document as the basis for next year's Action Plan.

Annex A - Consolidated Analytical Agenda

The following list of activities comprises the Mission's analytical agenda for refinement and further delineation of strategic emphases. Given the length and complexity of this list, it is unlikely that the entire agenda can be accomplished during the Action Plan period. Thus, within each section below, USAID has prioritized analyses, and indicated by an asterisk (*) whether the proposed study is anticipated to be completed through the Action Plan period. Cost estimates have been developed based upon assumptions regarding the number of persons and time required. All include some provision for contractor overhead, although in a number of instances the Mission may choose to use a Purchase Order or other less costly mechanism. Some of the agricultural analyses may be done under existing or planned contracts under the Agricultural Development Support Program. Beyond this, the Mission has not determined which pieces might be most appropriately performed by AID/W staff, or which might require central or regional funds. Given the apparent shortage of Project Development and Support funds, and limited Mission capability to support macroeconomic studies within existing project authorizations and budgets, it is hoped that assistance can be provided from AID/W for financial and staff support to carry out this agenda.

Analyses	Cost Estimates
Macroeconomic	
1. Labor Markets/ Remittances* p. 27	$ 25,000
2. Flow of Funds Model p.27	$ 31,000

3.	Financial Markets Reconnaissance* p. 27	$ 25,000
4.	Computer Model: Synthesis of Investment and Financial Variables p.28	$ 43,000

Agriculture

1.	Fertilizer Review*	$ 50,000
2.	Prices/ Incentives/ Interventions in Input/Commodity Markets* p. 36	$ 50,000
3.	Incentive/Disincentive Effect of Exchange Rate on Agricultural Production* p. 36	$ 31,000
4.	Credit Needs* p. 37	$ 25,000
5.	Environmental Degradation p. 37	$ 31,000

In addition, sub-sector specific studies will need to be done under ADSP auspices, e.g., review of vegetable subsector including other donor efforts, cash crop potential, etc.

Health and Population

1.	RAPID Update* p. 59	$ 70,000

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2. Private Sector Health Options* p. 61	$ 25,000
Total Estimated Requirement:	$406,000
<u>Requirement Through FY 89:</u>	$301,000

USAID/YEMEN PROGRAM BUDGET
DATE: MARCH 09, 1987
CHILD SURVIVAL (IN)

PROJ NO.	PROJECT TITLE	AUTH LOP	PLND LOP	THRU FY 86 OBLS	EXPEND	MORTGAGE	FF	FF/TO	FY 87 OBLS	EXPEND	FF
	AGR., RURAL DEV. & NUTRITION:										
052	AGRICULTURE DEV. SUPPORT:	137735	127391	68798	52261	58593	16537		10100	15030	11607
052.1	CORE	59804	51800	29195	25492	22605	3703	3/86	4150	4940	2913
052.2	IBB	28160	18260	13360	12344	4900	1016	9/88	1950	1530	1445
052.3	PETS	6186	5246	6186	4346	-940	1840	2/87	-940	900	0
052.4	HITS	14385	14385	11752	8148	2633	3604	8/88	210	2210	1604
052.5	FDA	29200	29200	8305	1931	20895	6374	5/86	4750	5450	5844
052.6	IFP	0	8500	0	0	8500	0	--	0	0	0
	EDUCATION & HUMAN RESOURCES:	68293	95746	36276	17494	59470	18782		7800	6500	20082
053	BASIC EDUCATION	28293	17439	18739	12054	-1300	6685	FF	-1300	2000	3385
080	DEVELOPMENT TRAINING III	40000	67307	17537	5440	49770	12097	VARIOUS	7800	4000	15897
074	EDUCATION DEV. SUPPORT	0	11000	0	0	11000	0	--	1300	500	800
	HEALTH:	45708	55426	30590	24357	24836	6233		4100	5493	4840
044	SMALL RURAL WATER SYSTEMS	21500	21500	18488	16936	3012	1552	3/87	1800	2800	852
065	TIHAMA PRIMARY HEALTH CARE	11500	9218	8943	7421	275	1522	COMPL	1500	693	2329
078	WATER RESOURCES	0	12000	0	0	12000	0	--	0	0	0
082	CHILD SURVIVAL	12708	12708	3159	0	9549	3159	--	800	2000	1759
	SELECTED DEV. ACTIVITIES:	80	280	0	0	280	0		0	0	0
054	SMALL PRO. ASST.-PEACE CORPS	80	280	(120)	(61)	280	0	COMPL	(40)	(35)	0
	GRAND TOTAL:	251816	278843	135664	94112	143179	41552		22000	27023	36529
PL-480 TITLE I (L)				(25000)					(10000)		

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USAID/YEMEN PROGRAM BUDGET
DATE: MARCH 09, 1987
CHILD SURVIVAL (IN)

PROJ NO.	PROJECT TITLE	FY 88 OBLS	FY 88 EXPEND	FY 88 FF	FY 89 OBLS	FY 90 OBLS	FY 91 OBLS
	AGR., RURAL DEV. & NUTRITION:						
052	AGRICULTURE DEV. SUPPORT:	8500	10850	9257	8400	9500	9500
052.1	CORE	4430	4600	2742	4000	5000	5000
052.2	IBE	1010	1350	1106	690	800	0
052.3	PETS	0	0	0	0	0	0
052.4	HITS	680	1500	784	770	800	0
052.5	FDA	2380	3400	4624	2940	3100	2050
052.6	IFF	0	0	0	0	0	2050
	EDUCATION & HUMAN RESOURCES:	10100	9700	20482	11200	11100	11700
053	BASIC EDUCATION	0	2000	1385	0	0	0
080	DEVELOPMENT TRAINING III	9100	6900	18097	10200	10100	10200
074	EDUCATION DEV. SUPPORT	1000	800	1000	1000	1000	1500
	HEALTH:	3400	3300	4940	2400	2400	1800
044	SMALL RURAL WATER SYSTEMS	1000	800	752	0	0	0
085	TIHAMA PRIMARY HEALTH CARE	0	0	2329	0	0	0
078	SANAA BASIN WATER RESOURCES	0	0	0	0	0	1800
082	CHILD SURVIVAL	2400	2500	1859	2400	2400	0
	SELECTED DEV. ACTIVITIES:	0	0	0	0	0	0
054	SMALL PRO. ASST.-PEACE CORPS	(40)	(35)	0	(40)	(40)	(40)
	GRAND TOTAL:	22000	23850	34679	22000	23000	23000
PL-480 TITLE I (L)		(5000)			(5000)	(5000)	(5000)

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OBLIGATION SCHEDULE ($000/Month)

		FY 1987 $/mo.		FY 1988 $/mo.		FY 1989 $/mo.	
ARDN							
79-0052	ADSP	5,800 4,300	12 4	8,500	b/12	8,400	b/12
	TOTAL	10,100		8,500		8,400	
EHRD							
279-0053	Basic Education Dev.	(-1,300)	a/7				
279-0074	Educ. Dev. Support	(1,300)	a/7	1,000	12	1,000	12
279-0080	Dev. Training III	7,800	12	9,100	12	10,200	12
	TOTAL	7,800		10,100		11,200	
HE							
279-0044	Small Rural Water Systems	1,800	3	1,000	12	0	
279-0065	Tihama Primary Health Care	1,500	c/6	0		0	
279-0082	Accelerated Cooperation for Child Survival	800	c/7	2,400	12	2,400	12
279-0078	Water Resources						
	TOTAL	4,100		3,400		2,400	
	GRAND TOTAL	22,000		22,000		22,000	

a/ Deob/Reob from 053 to 074.

b/ Exclusive of Irrigated Farm Practices Subproject.

c/ Because of delays in start-up of the Child Survival project, the full $2.3 million previously planned for 082 is not required in FY 1987. If the initial CP is not met by March 31, 1987, USAID will recommend deobligation of the $3.159 million obligated in FY 1986. USAID would propose to use some or all of these funds for top-off of central or regional health projects earmarked for Yemen activities, a scholarship program in health-related fields under Development Training III, or for a contribution to the UNDP's planned assistance program to the High Water Council. If 082 does not move, USAID would prefer to swap the $800,000 remaining for Child Survival in this year's OYB for ARDN funds.

VS 0012P

ANNEX C

USAID YEMEN - EVALUATION PLAN FY 1987-1988

Project No./Title	Last Eval. Completed Mo./Year	FY 1987 Start (Qtr.)	FY 1987 To AID/W (Qtr.)	FY 1988 Start (Qtr.)	FY 1988 To AID/W (Qtr.)	Reasons/Issues	Funding Source	Funding ($000)	USAID Person Days	Collateral Assistance
ARDN										
279-0052.4 Agricultural Dev. Support HITS Subproject	2/84	1	3			Determine effectiveness, future roles MAF/private sector in hort. industry.	PDS	104.3	30	
HEALTH										
279-0065 Tinama Primary Health Care	4/85	2	3			Determine if project should be extended.	PDS	15.0	30	
OTHER										
279-0054 Small Project Assistance Program		4		1		Determine new direction for USAID/PC collaboration, effectiveness of SPAP.		0	20	AID/W, Peace Corps
Participant Training Cross-Sectoral Review				2	4	Determine impact and appropriate fields/colleges.	Projects		30	

VS 0032P

USAID YEMEN - EVALUATION PLAN FY 1987-1988

Project No./Title	Last Eval. Completed Mo./Year	FY 1987 Start (Qtr.)	FY 1987 To AID/W (Qtr.)	FY 1988 Start (Qtr.)	FY 1988 To AID/W (Qtr.)	Reasons/Issues	Funding Source	Funding ($000)	USAID Person Days	Collateral Assistance
COMPLETED FY 1986-1987	Eval.No.									
279-0044 Small Rural Water Systems	#87-03		3			Assess progress toward meeting objectives.	PDS (86)	92.5	10	
279-0045 Local Resources for Dev.	#86-02					Project Completion Report.		0	30	
279-0052.2 Agricultural Dev. Support ISAI Subproject	#86-01					Assess ways to improve instructional component.	Proj.	15.8	10	NMSU
279-0077 SHARED	#87-01		3			Assess progress to date and identify constraints.			5	RHUDO/Tunis Neth. Gov.

Annex D Gray Amendment

Program Funds: During the past year four contracts were signed with Gray Amendment organizations totalling $363,431 from program funds (including one from PDS funds allocated to the Mission); contracts include two minority firms, one woman consultant and one woman-owned firm. In 1987, it is anticipated that approximately $186,000 will be subcontracted from program funds for technical services from a woman-owned firm. Over the life of the project, approximately $5.5 million is planned for the technical assistance and summative evaluation contracts under the new Education Development Support project which will begin in late FY 1987.

Operating Expense Funds:

In FY 1986, operating expense funds totalling $256,190 were used for a Gray Amendment packing firm and six PSC contracts and several purchase orders for women administrative and consultant services. In 1987, approximately $296,000 in nine OE-funded contracts will be awarded for similar services, and in 1988, $330,000 for 10 contracts.

Historically Black Colleges and Universities (HBCU): Because USAID relies almost exclusively on ST/IT and university contracts for placement of participants, USAID has little control over HBCU placements. We have urged that ST/IT resources be charged with primary responsibility for implementation of this policy. With respect to participant training under our Title XII program, the Consortium for Development has entered into agreements with at least two HBCUs which should facilitate placement of contract funded participants in these schools.

Annex E - AID/Peace Corps Collaboration

USAID and the Peace Corps have made a concerted effort in Yemen to utilize each other's strengths in support of mutual objectives. At times, however, it is difficult for the collaboration process to accommodate all of the objectives, concerns, and bureaucratic requirements of both agencies as well as those of the Yemen Government. Over the past year, the potential for AID/Peace Corps collaboration has declined somewhat in Yemen, as a result of a number of factors:

-- Gramm-Rudman-Hollings budget reductions have eliminated or reduced funding for some AID programs. Unfortunately, the budget axe fell after Peace Corps had already initiated recruitment of volunteers for these AID projects. The net result has been that volunteers are underemployed in their assigned responsibilities.

-- The Yemen Government often seems to find it difficult to envision the more youthful and inexperienced PCVs as full members of AID project teams. In some cases, AID's proposals for PCV participation in AID-financed projects meet with stiff Ministry opposition. YARG attitudes, combined with the big adjustment required for all, particularly female PCVs to this conservative Islamic society, can result in relatively rapid turnover of PCVs among various projects.

-- Although AID and Peace Corps may agree on developmental objectives in their broadest sense, project management can be complicated by PCV involvement. AID uses contractors for project implementation. PCVs are assigned to contractors for day-to-day supervision. Where differences of opinion arise between PCVs and their contractor supervisors, PCVs can take their views to Peace Corps staff, and through them, to the Embassy. As a result, AID and its contractors lose some measure of control over project-specific decisions.

-- It is clear that while AID sees itself as a development agency, some elements of Peace Corps continue to emphasize Peace Corps' cross-cultural and community level development objectives. In Yemen, for a number of political, cultural and development reasons, these objectives are not always consistent with AID goals. Similarly, USAID/Yemen activities involving PCVs may not meet the Peace Corps guidelines. Furthermore, PCVs may resist being seen as a part of a program furthering U.S. foreign policy objectives, an inescapable connection where PCVs are working on AID projects.

-- With respect to the Small Project Assistance Program (SPAP), PCV participation in AID programs limits opportunities for identification and implementation of SPAP activities. In effect, PCVs working with AID projects are rarely living in villages where community development projects conforming to Peace Corps guidelines are generated. USAID has supported a broadening of the interpretation of these guidelines to facilitate SPAP identification, but Peace Corps/Washington has opposed this broader approach. These factors hamper quick and, in our view, effective use of these resources in the Yemen context.

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