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USAID/YEMEN ECONOMIC GROWTH STRATEGY OPTIONS REVIEW



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As Yemen has become increasingly unstable and impoverished, USAID is assessing entry points for development assistance and creating a strategic plan to help reverse these trends. The first step toward creating an effective strategic plan is increased understanding of Yemen's sociopolitical and economic status. This Desk Study is part of that process.

Background and Recent History

The current political situation is best understood in the context of Yemen's history, largely defined by a divide between the north and the south of the country. A royal Zaydi dynasty held control in the north until 1962, when republican forces overthrew the leadership and established the Yemen Arab Republic (YAR). A civil war erupted in the north between those loyal to the Zaydi dynasty and the republicans; the republicans held sway. In 1970, the communist National Liberation Front (NLF) took over in the south and declared it a socialist state, the Peoples' Democratic Republic of Yemen (PDRY). The YAR and PDRY began discussions in the 1980s to unite, and did so in May 1990. Ali Abdullah Saleh, president of the YAR, assumed the position of president, with the PDRY president, Ali Salim al-Bidh, as vice-president. "However, the merger of the two states was fraught with difficulties, and many southerners considered that they were treated as unequal partners in the unification process;"¹ the political party the Yemeni Socialist Party (YSP) became increasingly embittered as well. In April 1994, civil war broke out "although bloody, the civil war was short-lived, with the north having subdued the rebellious south by July."² Restoring political order was even more difficult given the inflation rate (70-90%) and GDP deficit; many of the southern secessionists fled the country, but have since now returned.

Threats to Stability

Yemen's threats to stability are the result of a weak central government, tribalism and a lack of social cohesion, high unemployment, and limited economic opportunity. Recent specific threats to stability include Islamic extremist, disenfranchised and underserved populations, tribalism, regional instability, and piracy, all contributing to the fragility of Yemen. In addition, Yemen's diverse and mountainous terrain plays a part to the governing challenges of this country.

In September 2004, an insurgency began in the north, an area still inhabited by the Zaydi group in Saada province. Hussein Badr al-Din al-Huthi declared that Yemen was "reverting to a Shia imamate,"³ and was spurred by the Yemeni government's cooperation with the U.S. on the war on terror. This insurgency demonstrates that relations within the north, between supporters of the Zaydi imam against republicans, are still latent and threaten the peace and stability in Yemen. A cease-fire agreement was brokered by the Qatari government in May 2007.

In the summer of 2007, riots broke out in southern Yemen when "former army officers demonstrated over a lack of jobs and pensions."⁴ The riots spread from Aden to the Radfan region -- the area that borders northern Yemen. Southerners are aggrieved over "economic hardship stemming from rising prices and a lack of jobs,"⁵ as well as latent feelings of discrimination by the northern regime. "In mid-November, south Yemenis established their own representative body, the Provisional Council for the Liberalization of the South (PCLS)"⁶ in response to growing disenfranchisement. The divide in the north between the Zaydi imam and

¹ Economist Intelligence Unit. 2007. *Country Profile 2007: Yemen*. p. 5.

² Worldmark Encyclopedia of the Nations (Vol. 2, 11th ed., pp. 689-699). 2004. "Yemen." Detroit, MI: Thomson Gale. p. 693.

³ EIU. 2007. p. 7.

⁴ Economist Intelligence Unit. 2008. *Country Profile 2008: Yemen*. p. 9.

⁵ EIU. 2008. p. 9.

⁶ Economist Intelligence Unit. 2008. *Country Report: December*. p. 10.

republicans, and the divide between the north and the south shape the current political situation and instability in the Republic of Yemen. Any USAID program must take into consideration the divide between the north and the south, particularly when determining project locations, as it would be beneficial to avoid any perceived favoring, which could result in ineffectual development activities.

Related to the divisions between the north and the south is the strong tribal delineation that exists throughout Yemen. The central government authority is weak outside of cities and towns, where "well-armed tribes largely hold sway."⁷ Although not associated with militant Islamists, tribal leaders are often wary to hand over wanted extremists. The tribal system in the south is not as strong as in the north, as it was weakened during communist rule. In addition to tribes reluctance to support the government, inter-tribal rivalry remains strong; "Yemen is one of the most heavily armed societies in the world."⁸ Tribes have often carried out kidnappings to gain concessions, often economic or infrastructure related, from the government. "The majority of kidnappings and attacks on government property occur in the unruly governorate of Marib, where much of Yemen's oil wealth is concentrated."⁹

As the border dispute with Saudi Arabia is largely resolved, one of the largest external threats facing Yemen is due to its proximity to Somalia. An estimated 92,000 people sought refuge in 2007 further straining limited resources.¹⁰ Recent acts of piracy, in the Gulf of Aden also linked to Somalia, threatened the strategic shipping lanes passing through the chokepoint of the Bab el Mandeb. These acts of piracy make the prospects of increasing the attractiveness of the Port of Aden even lower as a point of transshipment as well as for Foreign Direct Investment (FDI).

U.S. Support to Yemen

US relations and foreign assistance since the 1990 unification of Yemen have been strained and turbulent. Over the years the US has supported Yemen through financial aid; however during the 1990-1991 Gulf War this support was frozen due to Yemen's decision to support Iraq.¹¹ At this time, Yemen was also isolated from the Gulf Cooperation Council, particularly from Saudi Arabia and Kuwait, who had provided critical financial support to the Yemen government. Yemen nationals working as foreign nationals were expelled and/or deported, resulting in thousands of workers returning to Yemen with limited job availability. To compound matters, the loss of remittances from foreign workers had a dramatic impact on household incomes, contributing further to economic hardship in the country.

In 2000, the bombing of the *USS Cole* in Aden Harbor proved to be a turning point for U.S.-Yemeni assistance. In 2001, bilateral financial aid was renewed after a ten-year hiatus. Security cooperation increased again between the U.S. and Yemen after the September 11th attacks due to the resurgence of al-Qaeda in Yemen (AQY) and other Islamist groups in the south, like those responsible for the *USS Cole* attack.¹² The improved relations lead to USAID reopening the mission in 2003. While excellent relationships were established with communities and government officials work has been constrained by limited resources.

However, security continues to be an issue, several kidnappings have occurred directly related to the Islamist group, including the killing of several Spanish tourists from a suicide bomb attack

⁷ EIU. 2008(1). p. 6.

⁸ EIU. 2007. p. 15.

⁹ EIU. 2007. p. 15.

¹⁰ CIA. 2008. *The World Factbook: Yemen*.

¹¹ EIU. 2007. p. 18.

¹² EIU. 2008.

in July 2007, and an attempted attack on the U.S. Embassy in March 2008. On September 17th 2008, the U.S. Embassy was attacked again, leaving 16 dead, including six of the attackers. The group claiming responsibility for the attack, Yemeni Islamic Jihad, is thought to have broken away from the mainstream AQY. Despite the government's crackdown, efforts have "so far failed to eliminate the militant threat."¹³

The exportation of Yemeni detainees from Guantanamo also raises concerns of repatriation and the security of Yemeni jails. Increased threats of terrorism are related to the dearth of economic opportunities in Yemen, fueled by a stagnant economy, current account deficits, declining oil revenues, increasing food prices, and loss of remittances. The government's decision to support the U.S. and accept U.S. security assistance remains controversial in the country. Yemen was also re-admitted as a Millennium Challenge Corporation Threshold country in 2007 following the successful presidential election in September 2006. As of December 2008, Yemen is no longer an MCC Threshold Country Program country.

Current Economic Situation

Yemen has a small economy with limited and depleting oil resources, a large and growing population and is poor in comparison to its Gulf neighbors. Costs incurred at the time of the 1990 unification coupled with the loss of foreign assistance from Kuwaiti and Saudi Arabia during the 1990-91 Gulf led to a mounting financial crisis. Civil war in 1994 and 1995 continued to stagnate economic growth. Yemen made efforts toward reform supported by the International Monetary Fund (IMF). The IMF suspended lending to Yemen at the end of 1999 and did not resume until February of 2001. After five rocky years of an on and off again reform, the Government of Yemen (GOY) introduced their *National Reform Agenda* in 2006. The government adopted key pieces of legislations on public procurement, financial disclosure law for all public servants, and anti-corruption. Also the government established an anti-corruption agency (Supreme National Authority for Combating Corruption) and separated power between the executive and the judiciary branches by appointing the Chief Justice of Yemen as the head of the Supreme Judicial Council, in place of the President of the Republic.¹⁴

Of the country's most notable successes is the improvement of Yemen's overall ease of doing business ranking in the 2009 World Bank *Doing Business Report*. Reforms introduced increased Yemen's rank from 123 in 2008 to 98 in 2009 out of 181 countries. The GOY has also achieved improvements in the management and delivery of services of the Social Fund for Development and Public Works Programs.

The GOY introduced phase two of the *National Reform Agenda* in 2008 and is expected to focus on deepening reforms in public financial management, regulatory business environment and competition, civil service, and fiscal policy.

Yemen's financial system is small and not well integrated in international markets. It is not anticipated that the current US financial crisis will impact Yemen in the short term. Long term implications may impact exposure to foreign banks and risks of a sudden stop of capital flows, external financing vulnerability and vulnerability through real sector economic activities. Bilateral assistance may be affected as well through trade, FDI and remittances.

Despite a favorable outlook for reform, Yemen faces continued economic instability due to declining oil reserves, high rates of unemployment, and current account budget deficits due to high government expenditures and low government revenues, related to its dependence on

¹³ EIU. 2008. *Monthly Report: October 2008*. p. 8.

¹⁴ Rouis, *Yemen Post*: November 17, 2008.

export earnings from oil. "In 2007, oil accounted for 85% of export earnings and an estimated 71% of government revenue."¹⁵ In addition, the inflation rate in Yemen is around 12% average, and will potentially reach a high of 14.6% in FY 2008-09 due to food price increases. Given Yemen's heavy dependence on oil exports, fiscal and external accounts are vulnerable to fluctuations in global oil prices. Additionally, it is expected that Yemen will exhaust its oil reserves in 12 years, with output having declined over the past several years. Economic instability stems from these declining oil revenues, while also maintaining relatively high levels of government expenditures, such as diesel subsidies. The key to stimulating economic growth in Yemen will be finding alternative sources of revenue, exports, and jobs outside of the oil sector.

Yemen is reliant on imports for foodstuff and capital goods and consumables, which account for roughly 35% of the GDP. According to the World Bank, Yemen imports more than 2 million metric tons of wheat a year. This reliance makes Yemen vulnerable to changes in non-oil commodity prices. While Yemen had achieved a significant reduction in poverty from 42% in 1998 to 35% in 2006, it is estimated that these gains were lost in 2008 due to higher international commodity prices. Yemen is among the countries that are the worst hit by a recent global spike in food prices. The recent World Bank report *High Food Prices: A Harsh New Reality* indicates that a doubling in the cost of wheat over the past year could increase poverty by six percent. Food security is a critical issue with 42 percent of its population living in poverty and households spending more than ever on food.

In October 2008, Yemen experienced floods due to heavy rains, particularly in the Wadi Hadramout valley and Al-Mahra, displacing up to 25,000 people. The floods have impacted the livelihoods of some 650,000 people, washing away crops, palm trees, soil from fields, and disrupting agricultural and honey production. This will seriously impact the short-term economic prospects for these areas, and also will contribute to government budgetary short-falls due to the need to increase spending on infrastructure and other re-building needs.¹⁶

Yemen is currently facing a demographic crisis, according to a report by the U.N. Population Fund, suggesting that "if Yemen's current fertility rate of 6.1 children born per woman were extrapolated over the next 25 years, the population would exceed 50 million by 2033, creating demand for 2.2 million new jobs."¹⁷ Even if the fertility rate would drop to 3.3 children by the year 2020, the population would still reach 43 million people by 2033. This will have serious implications for the provision of services, such as health and education, as well as the provision of jobs and water supply. This is alarming given the current low access to healthcare in the country, particularly in rural areas, where it only reaches 25% of the population, as well as constraints from the influx of refugees from Africa. Educational trends do not fare much better, particularly for women. The adult literacy rate is only 50.2%, largely because the rate for women is only 30%, from 2003 estimates, compared to 70.5% for men.¹⁸ Unemployment currently stands at 35% of the labor force – which will continue to be a problem as the current youth bulge gets older. Restrictions on Yemen expatriate workers continue to inhibit traditional labor flows that help reduce unemployment and underemployment and provide economic support to households and families through remittances. The lack of employment opportunities, particularly among disenfranchised populations, and the lack of access to social services all contribute to an environment conducive to recruiting young people for extremist groups.

¹⁵ EIU. 2008(1). p. 15.

¹⁶ World Bank. 2008. *Yemen Economic Update: Fall 2008*.

¹⁷ Economist Intelligence Unit. 2008. *Country Report: February*. p. 20.

¹⁸ CIA. 2008.

Poor infrastructure remains a constraint to economic growth as a whole. The road system is inadequate in both size and maintenance to service the entire country. Yemen has found international support for rural electrification and infrastructure development in the International Finance Corporation (IFC), the Gulf Cooperation Council (GCC) and the World Bank. The GCC pledged half of Yemen's projected support of \$5 billion at a donor's conference in London in 2006. In 2007 a meeting was convened to identify key areas of infrastructure development requiring attention, which will become the focus for the funding.

In February 2008, IFC signed a memorandum of understanding with Yemen's Ministry of Planning and International Cooperation to advise the government on public-private partnerships (PPP) projects in priority sectors such as transport and power. The plan to introduce private sector involvement to these basic public services will provide investment opportunities to private companies and potential clients and partners for the IFC.¹⁹

Employment and Economic Growth

Agriculture is by far the largest employment sector with more than half of those employed active in this sector. Outside of agriculture, other significant employment sectors include wholesale and retail (11%), construction (7%), manufacturing (4%) and transport and communication (3%).²⁰ Currently the oil sector creates only an estimated 20,000 jobs, which is predicted to decline with depleting oil reserves. Data from a 2003 *Labor Market Survey* indicates that 60% of the economically active populations are employers and unpaid family members, the informal sector accounts for two-thirds of employment.²¹ The majority of the labor force is located in rural areas and has little basic education. According to the World Bank approximately 1 in 25 labor market participants have completed some form of vocational training.

Job creation is an integral part in Yemen's economic development. With unemployment at 35%, actions should be taken to produce both short-term and long-term employment opportunities. Vocational and other training opportunities can provide Yemenis, particularly women and youth, with productive skills to meet current job skills demand, identify new business opportunities and grow existing companies.

The supply of labor in the Yemeni market is apparent; however, there is a significant mismatch of skills and labor demands demand. Almost a quarter of firms site difficulty in finding workers with relevant skills and education as a major or severe constraint to doing business. The GOY has identified two key non-oil sectors with immediate employment and economic potential: fisheries and food processing, and construction. Critical to vocational training and education is inclusion of the business sector to ensure that skills being taught will meet demand. This is something that the World Bank is seeking to address through the Second Vocational Training Project. Consideration should also be given to the distribution of labor and assurances that training is aligned with potential sectors for growth. Medium and long-term sector growth exists among small and medium enterprises (SMEs) and tourism. Individual sectors are discussed in the following sections, identifying the current trends in these sectors and reasons why these sectors should provide catalytic impacts in the Yemeni economy, helping to reduce both political and economic instability. Vocational training and education specific to women and youth can be found in Annex 2.

¹⁹ Retrieved from <http://www.bicusa.org/en/Article.3695.aspx>

²⁰ World Bank. 2007p. 20.

²¹ World Bank. 2007. *Project Appraisal Document on a Proposed Credit in the Amount of SDR 10.1 million to the Republic of Yemen for a Second Vocational Training Project.* p. 20.

Agriculture

Agriculture is a critical part of Yemen's economy and currently makes up the second-largest amount of export earnings for the government. Yemen's main agricultural products are: qat, coffee, cotton, fruits, vegetables, cereals, livestock (sheep, goats, cattle, camels), and poultry. The main agricultural exports are: coffee, seafood, fruits, vegetables, hides, and tobacco products. However, "as a high-cost producer, Yemen is not yet able to internationally compete in marketing its produce, especially since such exports are often blocked at the borders."²² Exports often do not meet basic sanitary and phyto-sanitary requirements for internationally standardized handling techniques, which ensure food safety. As a result Yemeni exports are often not allowed to enter other countries.

Despite most of the population being employed in agriculture, Yemen is a net importer of food and livestock. Although producing sorghum, wheat, chickens, eggs, and fish for domestic consumption, there still remains a deficit to meet demand. Better irrigation methods could be employed to attempt to increase production and reduce food insecurity. However, drip irrigation methods are capital intensive, and also are only helpful to crops that do not need soil tillage, such as tomatoes and grapes. The potential for economic growth in agriculture is further limited due to environmental constraints including climate, soil erosion, deforestation, and water shortages. Although the use of irrigation has increased agricultural output, "agriculture accounts for over 90% of Yemen's water usage;"²³ given the constraints on water availability, the potential for increase is low, as Yemen is currently extracting "more groundwater than is recharged, causing the water table to drop by an average of 2 meters annually."²⁴

Box 1: Case Study: Colombia

The USAID program in Colombia, implemented by ACDI/VOCA, seeks to improve the quality of life for Colombian small-scale coffee farmers by increasing the quality – and thus the selling price – of their product. This has helped increase household incomes while providing a sustainable alternative to illicit crop production. The program assists farmers in accessing high-value markets by identifying appropriate domestic coffee exporters and external clients. The program is designed to increase food production, provide coffee production and processing training, improve infrastructure, provide business and marketing technical assistance, and create trade linkages.

Source: USAID. 2005. *Livelihoods and Conflict: A Toolkit for Intervention*.

With decreasing supply of agricultural products and increasing demand due to population growth, agricultural development will be vital for Yemen's long-term growth. The approach to agricultural development should be two-fold: a focus on products that will lend to an export market to help off-set the decline in oil exports, and a focus on products for domestic consumption that are vital to well-being. Both of these approaches must also focus on sustainability, which will be the biggest challenge to agricultural expansion. Yemen already experiences lower agricultural productivity due to encroaching desertification as well as falling water tables. U.S. technical assistance in new technology could provide solutions to these problems. This is particularly true as the decrease in agricultural productivity has been linked to the use of traditional farming methods, which also have implications for improper water usage. Additionally, "the ineffectiveness of the MAI [Ministry of Agriculture and Irrigation] has arguably been a factor in the country's poor agricultural performance."²⁵

²² *Worldmark Encyclopedia of the Nations*. p. 695.

²³ EIU. 2007. p. 35.

²⁴ EIU. 2008(1). p. 13.

²⁵ Hassanein, Adly. 2008. *Enhancing Government Effectiveness in Yemen: An Assessment of the Ministry of Agriculture and Irrigation*. p. 5.

Qat, a mildly narcotic plant, is cultivated extensively and is widely popular in Yemen. While proponents argue that its cultivation provides a vibrant aspect to the economy due to its sophisticated distribution system, its export capabilities are limited, and face competition from Ethiopia, who already exports the crop. Some argue that qat farmers should be encouraged to switch to alternative crops. Qat production has also fallen into some criticism recently, given the higher cost of food and declining production in Yemen, as it has been argued that qat farming uses land and water that could be devoted to grain farming. However, farmers will continue to grow qat as it is the largest cash-crop, unless alternative crops are identified which will be as profitable.

Currently, Yemen's main agricultural export commodity is coffee. An approach that directs coffee production to the specialized coffee market and capitalizes on Yemen's historical connection with coffee could potentially yield a higher market value (the English word mocha comes from Yemen's port city). Yemen could also benefit from a linkage with a multi-national company, providing fair trade products that would satisfy the growing affinity in developed markets for these types of products.

Yemen does produce horticultural products that could be export-ready, including: alfalfa, citrus, dates, cucumbers, mangoes, grapes, onions, potatoes, tomatoes, and watermelons. As discussed in the *Yemen Agricultural Support Program (YASP): Final Report*, farmers need training and assistance in learning harvest and post-harvest handling procedures in order to meet international standards to ensure their goods can be exported, as well as training on other methods to enhance efficiency and competitiveness such as the use of fertilizers.²⁶ Yemen could also expand production into cocoa beans, which often grow in the same conditions as coffee. This would provide greater horizontal diversification to Yemen's agricultural export base.

Livestock

Animal husbandry is an important part of the economy, and the export of hides and skins are sources of foreign exchange. The commercial production of poultry began in 1970, and Yemen is emerging as an international producer of broilers (chicken meat), as well as eggs.²⁷ Those employed in this sector lack the knowledge and capacity to meet international standards in vaccinations and other food safety issues. This is particularly true of poultry – where Yemen has surplus production – but with concerns of Avian influenza in recent years, remains underdeveloped. The YASP project went far in developing a national plan in case of an avian influenza outbreak. Farmers could be assisted by training in proper techniques in animal safety. Additionally, output could be increased with better nutrition for animals – assistance could come in the form of training for farmers in the nutritional as well as medical needs of animals to meet international standards and become competitive; however, it must also be noted that such inputs, although beneficial, may be expensive and beyond the means of many families.

The critical first steps in training and inputs in better quality livestock have already begun through past USAID programs. Assistance could be provided in developing slaughtering, processing and packing plants for animals. This would vertically diversify this sector while providing new sources of employment. Moving along the value chain in honey production could also be feasible. Apiculture, or beekeeping, is an important livelihood in the Wadi Hadramout Valley; expanding production as well as adding value to the product through more sophisticated cultivation and bottling procedures would help ease economic hardship after the October 2008

²⁶ ARD. 2008. *Yemen Agricultural Support Program: Final Report*.

²⁷ *Worldmark Encyclopedia of the Nations*.

flooding. By capitalizing on its renowned quality and increasing storage and bottling procedures and sophistication, Yemen could create a niche market for its unique product for export.

Fisheries

Yemen's location in the Gulf of Aden provides abundant area for commercial fishing; it is estimated that Yemen's current catch is below its sustainable capacity. One reason why this sector is functioning below capacity is due to its "cottage-industry" nature.²⁸ However, Yemen does export dried and salted fish.²⁹ This sector may be particularly dynamic for intervention as most of the main fishing areas "are characterized by harsh climatic conditions, low rainfall, and scarcity of underground water, as well as low or very low human indicators."³⁰ Furthermore, the fishing industry is concentrated in the south, where much economic unrest stems from. By providing viable sources of livelihoods in this area, political and stability issues may be reduced.

Box 2: Fisheries and food processing

Fish and seafood are one of the major resources in Yemen. The expansion of the fishery sector and a move toward higher value-added non-seafood processing is one of Yemen's most promising avenues toward increased food security, non-oil related exports, and economic growth. It has a high employment generation potential. Both in fishery and food-processing, there are marked shortages of technician level personnel having skills related among others to quality control, sanitation and hygiene, secondary processing, production management, process control, machine maintenance, power generation, and refrigeration.

Source: World Bank. 2007. *Project Appraisal Document on a Proposed Credit in the Amount of SDR 10.1 million to the Republic of Yemen for a Second Vocational Training Project*. p. 22.

In preparation for implementation of their Fisheries Management and Conservation Project, the World Bank undertook a study on the small-scale fisheries industry in Yemen. This report provides useful information in analyzing the small-scale fisherman in order to provide possible ways forward in supporting the industry in order to contribute to economic growth. The report identified two areas to explore in more depth: along the Red Sea coastline, around Al-Mukha in the Taizz Governorate and around Burum on the Gulf of Aden in the Hadramout Governorate. The characteristics of these fishing areas are quite different, particularly in concern to fishing cooperatives and household position. In the Hadramout Governorate, cooperatives are strong and most fishermen are members, there is also a more even distribution between fishermen falling into categories of survival, average, and well-off. In comparison, along the Red Sea coastline, cooperatives are weak and few fishermen participate in them; the majority of fishers in this area are working just to survive. This report also importantly points out that "fisher households are not directly involved in fish marketing, but rely on networks of auctioneers, traders, transporters, and retailers, as well as one a number of service providers (making and selling ice, selling fuel, gear nets and other equipment),"³¹ making it potentially necessary to work with fisherman and also other actors in the sector, whether belonging to a cooperative or not. Where there are good cooperatives, they can help fishers by organizing auctions and meetings with traders that help maintain transparency and consistency within the market. A very small percentage of the total catch in Yemen is traded directly from a fisher; these numbers vary depending on the region and the type of fish as well. These characteristics should shape interventions to develop fishery capacities in Yemen. The report also outlines the types of fish that are caught along the coast and in which areas. It should also be noted that there are commercial fishing enterprises as well, which are separate from these small-scale individuals.

²⁸ EIU. 2007. p. 36.

²⁹ CIA. 2008.

³⁰ Bonfiglioli, Angelo, and Khaled Ibrahim Hariri. 2004. *Small-scale Fisheries in Yemen: Social Assessment and Development Prospects*. Food and Agriculture Organisation and the World Bank. p. 6.

³¹ Bonfiglioli. p. 7.

Fish canning does exist in Yemen, though the most recent estimates indicate that there are only a few such factories. The fishing industry would benefit from better technology and understanding of food safety issues; most fish are not kept on ice or gutted until reaching shore, raising the potential for contamination.

Box 3: The World Bank project, Fisheries Management and Conservation Project (FMCP), 2005-2011

The Fisheries Resource Management and Conservation Project for Yemen will contribute to achieve economic growth through the development of the fisheries sector. The project consists of the following components: Component 1) will strengthen the Ministry of Fish Wealth (MFW) resource management capacity to undertake more effective fisheries research, resource management and fish landing regulation activities at the governorate level. Component 2) will support the improvement of facilities and handling procedures at existing fish landing sites to avoid deterioration in fish quality due to unsanitary conditions, delays in handling and auctioning of fish at these sites as well as the shortage of ice needed to maintain fresh fish quality. Component 3) will assist cooperatives to strengthen their management skills and improve their ability to operate and maintain their physical assets. Component 4) will provide the Ministry of Fish Wealth (MFW) with support for project implementation, as well as assisting them in conducting technical and economic analysis of the need for future ports and landing sites along the Qusayer-Mukalla-Bir Ali corridor and the Red Sea Coast.

Source: World Bank. "Fisheries Resource Management Conservation."

Retrieved from

<http://web.worldbank.org/external/projects/main?pagePK=64312881&piPK=64302848&theSitePK=40941&Projectid=P086886> on 09 January 2009.

Small and Medium Enterprises

Manufacturing accounted for 9.9% of Yemen's GDP in 2006, with most businesses, 95%, classified as small, employing between one and four workers.³² Additionally, most manufacturing is at the lower-end, in food products and beverages, rather than a more advanced form of material processing. Although it would be beneficial to increase the amount of products and the level of processing that occurs in the country, this may be difficult as Yemen imports many of its capital goods.

As the majority of businesses in Yemen are classified as small and medium enterprises (SMEs), it will be essential to invest resources in their development. Indeed, as stated in USAID's *Securing the Future: A Strategy for Economic Growth*, "all productivity growth takes place at the level of the firm."³³ In order to increase productivity, firms must "find ways to increase sales and reduce their costs of production,"³⁴ donors have the ability to assist firms with this. In some instances, firm-level assistance is often employed in post-conflict environments may be an effective method in achieving catalytic impacts given the fragile political environment in Yemen. Technical assistance that also supports the enabling environment and policy-related interventions will help ensure lasting results that will increase productivity.³⁵

USAID has an advantage in comparison to other donors in private sector assistance, as it is more likely to work directly to "promote private-sector-led economic growth."³⁶ The potential impacts within Yemen are tremendous given the percentage of businesses that are SMEs. SMEs can be supported through technical assistance and capacity building projects that help them better understand the market to therefore be able to respond to it more dynamically. SMEs should also be encouraged to pursue vertical diversification in order to achieve a higher level of processing. Industries where this may be readily possible include coffee and fishing. Finally,

³² EIU. 2007. p. 39.

³³ USAID. 2008. *Securing the Future: A Strategy for Economic Growth*. p. 4.

³⁴ USAID. 2008. p. 12.

³⁵ USAID. 2007. *A Guide to Economic Growth in Post-Conflict Countries*.

³⁶ USAID. 2008. p. 20.

infrastructure development, including better roads and dependable energy resources, guarantee businesses will be able to produce their goods at all times and will be able to transport their goods to market – whether domestic or for export.

For longer-term impacts, other industries that could be targeted include: more sophisticated horticultural production, including canning and jam making and honey processing and bottling. Longer-term impact and further diversification outside of agricultural value chain development could include supporting the textile industry in Yemen. Although it would be inadvisable for the country to expand cotton production, it could establish cotton processors and textile factories. Its location near the Red Sea shipping lanes, and the further development of the Port of Aden, especially through the Aden Free Zone, would make this development feasible, and would provide employment as well as export revenue. However, investment in the development of textile production should consider market advantage over other regional producers such as Oman. Also without a favorable trade arrangement with the U.S. such as the African Growth and Opportunity Act (AGOA) or other potential markets, it may be difficult for Yemen to be competitive in this market.

Box 4: Microfinance Program, Syria

In Jabal Al-Hoss, Syria's poor northeastern region, UNDP supported a project to promote local development and empower vulnerable groups through microfinance. The project set up a network of 32 Village Development Funds in over 40 villages to administer microloans over the short-term, with the longer-term goal of developing and sustaining microfinance institutions to serve the area. To date, the project has led to almost 13,000 loan disbursements to over 7,800 households, which saw their incomes rise by 20 percent. Nearly half of the borrowers were women, who also account for 46 percent of the 1,000 jobs created as a result of the initiative. At the same time, 25 adult literacy programs have been set up throughout the area, along with two new kindergartens that allow women to attend classes while their children are being cared for. The initiative has created a socio-economic database to track progress in the region in key areas including population growth, household size, size of livestock, amount and percentage of arable land, and literacy rates.
Source: UNDP. 2008. *Capacity Development: Empowering People and Institutions, Annual Report*. p. 16-17.

Financial services are an important aspect to help ease youth unemployment, but are also vital to enterprise creation and development. The Social Fund for Development, through its Small and Micro Enterprise Program (SMEPS) in Yemen has achieved significant results in supporting microfinance institutions. The report *Microfinance Gender Study: A Market Study of Women Entrepreneurs in Yemen* provides an important snapshot into the constraints faced by women-owned businesses in Yemen. The Small and Micro Enterprise Competitive Project begun in October 2008 potentially will provide a dynamic impact on enterprise development in the south, which will be vital for maintaining peace and stability in the country. USAID could apply other best practices learned in youth development to the SME sector, including access to and helping to build human, social, financial, and physical capital in businesses.

Box 5: Lessons Learned, Pakistan

The Kushhali Bank Developing Non-bankable Territories for Financial Services Project provided micro-business loans, however, it has been noted that this narrow focus overlooked other areas, such as savings, where other important services could be provided. The Widening Harmonized Access to Microfinance also encountered the same problems. Although providing vital financing for the missing middle, a strict focus on loans overlooked strategic impacts that could be sought through other financial services.
Source: Management Systems International. 2008. *Economic Growth Program Evaluation: Evaluation Summary Report*.

Box 6: Project Highlight: Afghanistan Small and Medium Sized Enterprise Development Activity

ASMED, which began in late 2006, provides technical assistance and financial support to the SME sector and the organizations that support SMEs throughout Afghanistan. With an overarching goal to increase opportunities for trade, employment, and investment in Afghanistan, ASMED focuses on five main economic development activities:

- Gathering, analyzing, and disseminating Afghanistan market information;
- Developing strong business services providers;
- Strengthening and increasing the numbers of business associations;
- Creating public-private sector alliances; and
- Building the capacity of an Afghan private sector workforce.

One of the challenges facing business associations is that they lack input in the future of the business regulatory environment. DAI's ASMED team is working to build a strong advocacy capacity among business associations. SMEs often find it difficult to identify investors to help grow their businesses. ASMED assists SMEs in identifying foreign companies wanting to invest in the Afghanistan economy and then forming alliances with these firms. Finally, there is a recognized need in Afghanistan to build the private sector skill capacity of recent university graduates and young professionals. To that end, ASMED will implement a large-scale internship and mentorship program matching hundreds of this younger generation with well-established and successful organizations and business people throughout the country so they can learn the requisite skills and later bring that knowledge to businesses, organizations, and government agencies throughout the country.

Source: DAI. "Transforming development concepts and strategies into sustainable solutions." Retrieved from http://www.dai.com/work/project_detail.php?pid=134 on 13 January 2009.

Business associations are often beneficial to SMEs in linking with other similar businesses or in the same supply chain. For example, through the linkages provided by belonging to a business association, larger businesses can coordinate with smaller businesses to provide them with the necessary inputs needed, as opposed to importing these goods. Such initiatives have previously been identified as being strategic in Yemen; however a lack of social and economic cohesion may make it difficult for businesses to acknowledge common interests.³⁷

Handicrafts

Yemen has a vibrant handicrafts industry, which is being supported currently through the Social Fund for Development. A website has been created to market Yemeni goods including incense, baskets and other fiber items, coffee, textiles, wall hangings, pottery, and jewelry.³⁸ This is a positive development for Yemenis who depend on this for their livelihoods, but more could be done to encourage and develop these producers. Access to regional markets would be important through trade shows and other exhibitions. However, these craft items would most likely find a more receptive and less competitive market outside of the region. Linking small scale producers to end market seller to develop products that meet current market demand for style and quality would increase the competitiveness of Yemen's products and facilitate access to new markets. Models for this kind of technical assistance exist and have proven beneficial particularly to women.

³⁷ Nathan Associates, Inc. 2004. *Proposed Technical Assistance Activities to Support Economic Growth and Trade Expansion in Yemen: Options Paper*.

³⁸ Nathan Associates, Inc. 2005. *Institutional Arrangements to Promote Yemen's Non-oil Exports*.

Box 7: Lessons Learned, Iraq

USAID's Agribusiness Program, Inma, is leading the way to economic recovery in the city of Balad, 50 miles north of Baghdad. A \$5 million grant to restart operations at the Balad Canning Factory (BCF) is part of a larger regional project that will help restore agricultural and agribusiness operations throughout this formerly strife-torn area. BCF, one of Iraq's largest food processors, was built in 1974 as a government-owned tomato paste factory. After privatization, the owners added ten product lines to their operations that employed over 1000 Sunni and Shia workers, including up to 200 women. The factory's demand for agricultural supplies not only kept local farmers producing and profiting, it also bought produce from some 50 wholesale suppliers. BCF's outputs created still further employment for transportation companies and for more than thirty wholesale buyers.

A 2006 USAID report, *The Potential for Food Processing in Iraq*, stated "...the food and agriculture sector may contribute as much as \$10 billion to Iraq's GDP, assuming that Iraq can achieve levels of agricultural production per capita that are in keeping with regional levels, and can establish a food processing industry..." *Inma's* mandate is to strengthen entire "value chains" in the agriculture and agribusiness sector, including production, handling, processing and marketing.

Source: USAID. "Economic Opportunity Replaces Conflict in Iraq."

Retrieved from http://www.usaid.gov/press/releases/2008/pr080509_1.html on 16 January 2009.

Tourism

Tourism is a potential area for economic growth and one that the GOY would like to pursue. However, there are many constraints to this – not least of which are the political and security concerns in the country. Particularly the 2007 suicide bomb attack on Spanish tourists will mar the industry in the years to come. Other constraints facing this sector include lack of international standards in infrastructure, including transport, hotels, and restaurants, and appropriate staff training.³⁹ Tourism has the potential to provide several catalytic impacts in economic growth: job creation, non-oil sector development, and tax revenue. In this light, the best focus for the USG in order to encourage tourism in the country would be to continue to work with the GOY in establishing security measures through agencies outside of USAID. Within USAID, activities can focus on improving international standards at hotels and restaurants through training and technical assistance. Additionally, USAID can provide assistance to the GOY in expanding infrastructure coverage across the country.

Tourism is also a strategic industry as its development would directly impact small and medium enterprises. Many of the related businesses to tourism – restaurants, hotels, bed and breakfasts', street vendors, internet providers, retail, and entertainment – would be developed further if tourism numbers grew. These businesses already exist in Yemen, but through the development of the tourism industry, more could grow as industrious entrepreneurs enter the market, and the existing businesses could expand into larger ones that could employ more people.

Box 8: Case Study: Lebanon

USAID's economic growth work in Lebanon has focused on tourism development as a means of employment and strengthening small and medium enterprises. Lebanon's tourism industry has been built around its rural mountain trails and eco-tourism. This can be applied to Yemen, particularly in the Wadi Hadramout, which has several villages listed by the UN as World Heritage Sites. SME development in Lebanon has focused on access to credit and other support to micro businesses and entrepreneurs. In the long-term, these businesses, which are in growth sectors such as IT and hospitality, should stimulate employment and the economy.

Source: USAID: Lebanon. "Programs Overview."

Retrieved from <http://www.usaid.gov/lb/programs/index.html> on 15 January 2009.

³⁹ EIU. 2008(1) p. 19.

Box 9: Success Story, Jordan

Tourism in Jordan contributes a tenth of the country's GDP, and employment opportunities continue to increase as tourism development flourishes all around. Despite this, a career in hospitality is far from the minds of most young Jordanians, who traditionally see it as shameful. Less than a year ago, Omar Al Masandeh, a resident of Madaba, exemplified this widespread mentality. In the summer of 2006, Omar was drifting academically, with no clear idea of where he was going with his education, until he heard that the Vocational Training Center in Madaba (part of the Vocational Training Corporation Hotel and Tourism Unit) was recruiting students for the Certificate in Hospitality Skills (Level 1). The center had recently undergone an upgrade in its facilities and curriculum, which was supported by the USAID/Jordan Tourism Development Project (Siyaha), and had launched a campaign to encourage students to visit the center during an open day to find out more about the course.

Source: USAID: Jordan. "Model Vocational Training Center in Madaba Changes Jordanian Youths Attitudes Towards Hospitality." Retrieved from http://jordan.usaid.gov/features_disp.cfm?id=130&type=success on 16 January 2009.

Trade and Investment

The port of Aden is the busiest in Yemen and presents great opportunity to support economic growth. In 2007 a Memorandum of Understanding was signed with Dubai Ports World to operate and further develop the Aden Container Terminal (ACT), part of the Aden Free Zone project. This move is encouraging for Yemen's expansion as an export country; though the security and piracy issues in the Gulf of Aden still remain problematic. Some of the funds from the 2006 donor's conference are expected to be invested in the Aden Free Zone, which includes not only the ACT but also an Air Cargo Village and the Industrial and Warehousing Estate.⁴⁰ The project has run into several setbacks including restructuring of the management company.⁴¹

Box 10: Egypt TAPRII Project

USAID is providing technical assistance, through its TAPRII Project, to the Suez Economic Zone (SEZ) to attract international companies to develop the 20.5 sq. km that lie under the jurisdiction of the SEZ in Suez, using a Public Private Partnership approach. Private international developers have been invited by the Suez Economic Zone and its subsidiary, the Main Development Company, to submit bids for the development of this area according to the best international practices. Bids are due to be received in September. Selected bidders will be responsible for developing the area and attracting industrial users. Companies that will operate in the SE Zone will enjoy the benefits provided by the SEZ law, namely reduced tax rates (10%) and streamlined procedures.

Source: USAID: Egypt. "Projects in Suez Governorate."

Retrieved from <http://egypt.usaid.gov/Default.aspx?pageid=590> on 16 January 2009.

Yemen has already begun the process of accession to becoming a full member of the World Trade Organization. While the process and necessary reforms to achieve this by making changes to Yemen's trade policy are complicated, and Yemen would benefit from technical assistance, the European Community has already sponsored a program to assist Yemen in this area; therefore, direct assistance in trade reform would be redundant.⁴² However, Yemeni trade can be supported by USAID indirectly through interventions in sectors that will increase Yemen's balance of trade as well as assist in generating export revenues outside of the oil industry.

⁴⁰ "Aden Free Zone." Retrieved from <http://www.adenfreezone.com/Index.php> 15 Jan 2009.

⁴¹ Financial Times. 06 June 2007. "Foreign Direct Investment: Taking off." Retrieved from http://www.fdimagazine.com/news/fullstory.php/aid/2048/Taking_off.html 15 Jan 2009.

⁴² World Trade Organization. 2008. "Progress made in Yemen's WTO accession." Retrieved from http://www.wto.org/english/news_e/news08_e/acc_yemen_oct08_e.htm 10 January 2009.

Box 11: Diversification in Morocco

Although strawberry cultivation in Morocco has expanded rapidly in the last decade, from 10 tons in 1997 to 110,000 tons in 2006, Moroccan producers have faced growing international competition in the strawberry market, mainly for frozen strawberries. Without access to alternative berry varieties well-suited to Morocco's climate, strawberry producers have been unable to diversify their berry production in response to strawberries' growing competitiveness.

Addressing this dilemma, USAID imported 8,000 new heat-resistant berry plants from the U.S. and conducted field trials of 3 blueberry, 3 raspberry, and 2 blackberry varieties. With the success of these trials, USAID and local farmers have proven to domestic and international investors that Morocco has outstanding market opportunities in berry production, beyond that of strawberries. In fact, Moroccan berry producers have since independently ordered 24,000 additional berry plants to expand their new crops. Additionally, USAID has helped berry producers take advantage of these new varieties by providing technical assistance, training on best production practices, professional organization, and economic analyses of international market opportunities.

Source: USAID: Morocco. "Access to US berry varieties expand Morocco's production and export potential." Retrieved from http://www.usaid.gov/ma/programs/eg_stories_berry.html 17 January 2009.

Yemen also has the potential to increase its exploitation of minerals, such as gold and zinc. Initially these reserves were thought to be too small to warrant commercial exploitation. However, a recent geological survey indicates that there are larger deposits of gold than previously thought, and a UK company announced in early 2008 its intentions to develop zinc mining in the country. Despite these new prospects, the long-term sustainability and viability of natural resource mining is low because they are non-renewable. Yemen also mines gypsum and salt in Salif, but expansion of these activities is unlikely.⁴³

Natural gas has lately been touted as the best potential alternative to the oil sector. After much delay, the Yemen Liquid Natural Gas project (YLNG) opened in late 2008, "on November 12th, gas from the Marib block began to be piped south to the Balhaf liquefaction and export facility on the southern coast."⁴⁴ Despite this new prospect, it is unlikely that this resource alone will account for the deficit from declining oil prices and reserves. When both trains of the YLNG come on stream by end-2010, estimates by the IMF indicate that "total LNG fiscal returns will still only be equivalent to just 19% of total oil revenue in 2011."⁴⁵ This is due in part to the lower price of LNG, as well as the fact that one-third of Yemen's output will be exported to South Korea at a discounted rate. The YLNG consortium consists of Total of France (39.62%), the Yemen Gas Company (16.73%), Hunt Oil (17.22%), SK Energy (9.55%), the Korea Gas Corporation (Kogas, 6%), Hyundai (5.88%), and the local General Authority for Social Security and Pensions (5%).

Box 12: Linking Trade and the Environment

UNDP has joined forces with the banking and insurance company Fortis on an MDG Carbon Facility, an innovative means of harnessing the vast resources of the carbon market to bring long-term sustainable development to more countries. Under the terms of the partnership, UNDP will help developing countries formulate projects intended to reduce GHG emissions, and will ensure that these projects meet the Kyoto Protocol's agreed standards and deliver real, sustainable benefits to the environment and broader human development. Fortis will then purchase and sell-on the emission reduction credits generated by these projects. The proceeds from Fortis' purchases will provide developing countries and communities with a new flow of resources to finance much needed investment and to promote development. One of the three pilot projects will take place in Yemen.

Source: UNDP. 2008. *Capacity Development: Empowering People and Institutions, Annual Report*. p. 31.

⁴³ EIU. 2007. p. 36.

⁴⁴ EIU. 2008(2). p. 13.

⁴⁵ EIU. 2008(2). p. 13.

Water

It is important to note that Yemen has begun to face a water crisis – the water table is already falling, met with increasing demand due to population growth. In addition, there is already a scarcity of water in the valleys where coffee is being grown. “In its effort to improve water use and irrigation efficiency, YASP undertook several small irrigation projects and trained MAI extension agents and farmers in the target governorates on basic field water management and irrigation scheduling.”⁴⁶ However, further interventions by the government will be necessary to implement an Integrated Water Resources Management (IWRM) plan to account for the different demands on water. Women should be incorporated in both the development and implementation of sustainable water policies, as the burden of fetching water often falls on women and girls. This will be particularly important in a fragile state like Yemen, as lack of access to water could lead to conflict, particularly if distribution and access is seen as unfair between the north and the south, as well as between urban and rural dwellers.

Box 13: Linkages between Land and Water Resource Management

As both water and land represent fundamental aspects of sustainable ecosystems, their management should be addressed together, halting land degradation and managing water resources are essential in achieving food security. The Food and Agricultural Organization has several different program areas that address land and water together. Particularly, the Water Development and Management Unit addresses water as it pertains to agricultural development. The Unit has several projects, a few of which may provide potential best practices to be applied in Yemen, including Morocco, Somalia, Saudi Arabia, Afghanistan, and Syria.

Source: http://www.fao.org/nr/water/projects_list.html

Box 14: UNEP IWRM 2005 Program

The immediate objective of the UNEP program is: “Acceleration of the implementation of the IWRM 2005 target ensuring that environmental aspects are adequately incorporated in the strategies/roadmaps produced to achieve this target.” In order to meet this objective, UNEP has taken the point of departure in the established sub-regional networks and IWRM related activities in Africa, Asia and South America. The results expected to be achieved in cooperation with appropriate partners, include:

- Sub-regional networks relative to environmental aspects of the IWRM 2005 planning process and the general IWRM process established and/or supported;
- Sub-regional work plans addressing the environmental aspects of the IWRM 2005 target prepared, such work plans and road maps will also be prepared at the national level where governments have articulated a particular need;
- Generic and sub-regional guidelines for the environmental component of the IWRM 2005 planning process;
- Provide, on specific request from countries and basins, technology support and capacity-building to national governments and other stakeholders in their IWRM planning activities; and
- The sub-regional IWRM progress tracked and progress reported in general and in the field of Water and Nature, IWRM indicator systems and methodologies for their application will be part of the results.

Source: UNEP. “UNEP support for achieving the IWRM 2005 target ‘accelerating the process.’”

Retrieved from <http://www.ucc-water.org/iwrm05/> on 13 January 2009.

⁴⁶ ARD. p. 18.

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Annex 1: Other Donor Programs

World Bank

Fisheries Resource Management and Conservation Project, 2006-2011

The project components are: strengthen fisheries resource management; improve fisheries infrastructure and fish quality; cooperative development; and project design and implementation support.

Rural Water Supply and Sanitation, 2001-Present

The objective is to expand sustainable rural water supply and sanitation (RWSS) service coverage by: introducing a demand-driven and participatory approach; assisting the Government in building and strengthening local RWSS capacity; and helping the Government formulate the agreed demand-driven and participatory principles in a coherent national RWSS strategy.

Health Reform Support Project, 2003-2009

The project components are: strengthening health service delivery; strengthening public health programs; improving health systems management; improvement of national family health and reproductive health programs; capacity building; and credit administration and project coordination.

Civil Service Modernization, 2000-2010

The project helps put in place core personnel and financial management systems, establishing a mechanism to reduce the number of unqualified civil servants, and initiating a restructuring process in individual ministries, and to update management capacity in the civil service.

Urban Water Supply and Sanitation APL, 2002-2009, along with the Islamic Bank, Oman, and UAE

This project provides efficient and sustainable water and sanitation services in Yemen's urban areas through: improved operation and reduction of water losses and the reuse of wastewater; establishment of financially viable regional corporations with significant participation of the private sector; and affordable sewerage facilities.

Irrigation Improvement, 2001-2008

The main objectives of the project are: sustainable water use in two spate irrigation project areas of Tuban and Zabid, through (a) rehabilitation and modernization of infrastructure, and (b) participatory irrigation management; and increase in agricultural productivity and rural incomes through implementation of an intensive demonstration program.

Sana'a Basin Water Management Project, 2003-2009

Given the recharge of the deep aquifer is very limited, the key goal is to extend the life span of the aquifer through reductions in groundwater abstractions through irrigation efficiency improvements.

Port Cities Development Program, 2003-2008

The purpose is to establish a viable institutional and organizational framework at the local level, coupled with key capacity building and physical investments, enabling private-sector led growth in Aden in key business clusters.

Taiz Municipal Development and Flood Protection, 2002-2010

The project objective is to protect city residents, businesses and infrastructure from seasonal destructive flash flooding in the City of Taiz.

Groundwater and Soil Conservation Project, 2004-2011

The project components are to modernize and improve: groundwater irrigation systems; spate irrigation, water harvesting and soil conservation; and water institutions.

Basic Education Development Program, 2005-2010

The project objective is to assist the Government in expanding the provision of quality basic education to all, with special attention given to gender equity.

Social Fund for Development III, 2004-2009

The project objectives are to further improve access of low income groups to basic social services, while providing an example of an effective, efficient, and transparent institutional mechanism for providing social services in Yemen by: (i) refining social service delivery approaches and (ii) empowering local communities and councils to take charge of their local development.

Third Public Works, 2004-2011

The project will provide needed infrastructure to improve services and environmental conditions and create short term employment.

Second Rural Access, 2006-2010

By the end of the project, about 250,000 people located in district centers and within 2.5 km of the project roads in rural areas, who do not currently have reliable access to Governorate centers, will be provided with such access.

Second Vocation Training, 2008-2013

The project development objective is to provide the public training system with improved mechanisms for responsiveness to employment needs, and to enhance the capacity and effectiveness of the Skills Development Fund in articulating and financing the training needs of enterprises.

Power Sector, 2007-2011

The project will relieve critical supply constraints; improve the overall technical efficiency and quality of electricity supply; and support the GOY's initiatives in reforming the sector, strengthen corporate governance, and improve organizational effectiveness of PEC through capacity building and training.

Rainfed Agriculture and Livestock, 2007-2012

The project enables poor rural producers in rainfed areas to improve their production, processing and marketing systems; and protect their assets: soil, water, rangeland, seeds and animals.

Secondary Education Development and Girls Access Program, 2008-2015

The project will improve equity and reduce gender gaps through demand; enhancing the quality of service delivery; and support policy development.

Germany

Private Sector Development Program, 2007-2013

This project aims to improve the framework conditions for investment and the development of the private economy in the fields of policy, law, institutions and enterprise-related services.

Integrated Water Resources Management, 2004-2008

The project comprises advisory support to the partner institutions, evaluation of water resources for IWRM-planning, recommendations on sustainable development and protection of resources, advancement of decision makers on local and national levels, as well as awareness raising measures regarding the scarce water resources.

Support the Water Sector/Institutional Development

The project works at the ministry and community level to increase awareness and use of water management plans at all levels of the country.

European Union

Support to Priority Areas of Vocational Training

The project aims to create a technical institute in the hotel and tourism sector; support training programs in the oil and gas sector; and support three selected vocational professions for women.

The Netherlands

Institutional Strengthening of Post-secondary Education

The project was originally designed to develop and implement a higher professional education system to offer practice-oriented qualified professionals to the labor market, and as part of the higher education system.

France

Support to Agriculture and Veterinary Training

This is a small technical assistance grant provided through twinning the Agriculture VT center in Hodeida and Veterinary VT center in Sana'a with two French institutions. Technical assistance is provided to improve training modules in irrigation, building the capacity of the veterinary institute to design demand-driven training programs.

National Electricity Control Center (SCADA)

The objective of the Supervisory Control and Data Acquisition/Energy Management System is to construct a new national control center to replace the existing one and five new local centers.

Islamic Bank for Development

Polytechnic Institute Project

This project is to create a Polytechnic Institute in Sana'a city to provide pre-service training programs in Industrial, Commercial and Trade sectors.

Agricultural Development Project in Abian (Phase II)

The goal of the project is the development of more productive and sustainable rangeland and irrigated production systems, including protected agriculture, through the more efficient use of the natural resources of the Arabian Peninsula, in particular water, energy and indigenous plant species.

Saudi Fund for Development

TEVT Centers and Institutes Establishment Project

This loan is to create 19 TEVT centers and institutes throughout the country.

Hadramout University Education Hospital & Cancer Center, Taiz University Medical School, Hodeida Central Hospital

These three projects aim to increase capacity of these medical centers not in providing services, but in education in order to meet the demands of an expanding population by having more and better trained medical personnel.

Arab Fund

Agriculture Development (Hadramout Coastal Area)

Fisheries Development Hadramout Coastal Area (Fishing port and fishing boat housing at Saher city)

Rural Agricultural Development in Northern Region (Phase II)

Rehabilitation of the Aden Water and Sanitation Network

Sea Passageway (Khor Maksr-Almansourah-Aden)

Development of Sana'a International Airport (Phase II)

Rural Access Roads (Phase II), along with the Saudi Fund and UAE

United Nations Development Program (UNDP)

Aid Coordination and Alignment (AHA) Unit, 2005-2009

The AHA project has been established to enhance government leadership and ownership of development aid and build capacity in the areas of aid management and aid coordination and effectiveness, demonstrating the Republic of Yemen's commitment to improving aid effectiveness as a signatory to the Paris Declaration on Aid Effectiveness and the Rome Declaration.

Implementation of ASYCUDA in Yemen, 2003-2008

The overall objective of the ASYCUDA project is to modernize and strengthen customs administration with a view to enhancing customs revenue and to providing simpler procedures for the trading community.

Assistance to the Government of Yemen to coordinate and Monitor Implementation of Poverty Reduction Initiatives, 2003-2006

This programme intends to enhance national capacities for: improved effectiveness of the policy framework and coordination of national efforts with particular emphasis on enhancing its capacity to coordinate, follow up and monitor implementation of its Poverty Reduction Strategy Paper (PRSP); effective poverty information monitoring and dissemination; and improve national capacities in the preparation of environmental assessment guidelines, introduce mechanism of public participation in setting-up baseline data and environmental monitorable indicators.

Youth Community Access Centers (CAC), 2006-2007

The project focuses on ICT training by focusing on disseminating ICT knowledge and educating young people and providing training opportunities for young people on how to start small businesses using various ICT tools. To this effect, three Community Access Centers (CACs) equipped with ICT have been established in Taiz, Hodeida and Mukalla.

Improving Trade and Industry License Registration Capabilities, 2005-2009

The overall objective of the project is to modernize and strengthen trade and industry license administration with a view to improving the bureaucratic process of doing business in Yemen.

Fruit and Vegetable Export Promotion and Quality Control, 2005-2008

The overall objectives of the project are to support the sustainable development of the agriculture export sector by capacity building and enhancing institutional infrastructure, and to insure product quality and safety through more efficient export procedures. The project is an important measure in helping the Government to fulfill its commitments to regulate, organize, control, facilitate and enhance safety procedures for agricultural exports.

Fishery Quality Control for Export Promotion, 2005-2008

The project supports the Ministry of Fisheries and Water in running the fish laboratory in Hodeida and to improve its capacity to ensure that potential fish exports in the area are tested. This will entail the provision of equipment and training packages both to the laboratory staff (i.e. inspectors and technicians) and fishing communities in order to ensure proper handling of fish at all stages. The project will also support the introduction of international standards and Hazard Analysis and Critical Control Point (HACCP) rules.

Sustainable Natural Resources Management Programme (SNRMP), 2004-2008

The project is designed to support Yemen's efforts to reach its priority goals in natural resources management and environmental sustainability as a whole, by building capacity, raising public awareness, and promoting sustainable livelihood approaches at the national, regional, and local levels.

Decentralization and Local Development Support Programme (DLDSP), 2003-2008

The DLDSP assists the Government of Yemen to define, align and implement decentralization reforms based on the Local Authority Law of 2000. It provides policy inputs, capacity development of the MOLA and local authorities, as well as top-up financial support

for infrastructure projects foreseen in district development plans and annual investment programs.

Public Financial Management (PFM), 2006-2008

The objectives of this program are to: improve policy prioritization and budget decision making; improve management of national budget execution; enhance control and financial accountability; improve bidding and procurement system; and improve the skills and efficiency of public finance workers.

National Programme on Integrated Water Resource Management, 2003-2008

The programme provides a comprehensive response to water management issues with the objective of alleviating poverty and securing the basis for sustainable development, thereby helping to achieve the Millennium Development Goal (MDG) related to water and sanitation.

Sustainable Development and Biodiversity Conservation for the People of Socotra Islands, Yemen, 2003-2008

Socotra is one of the most biologically diverse islands in the world. However, the archipelago is probably also the most disadvantaged area of Yemen. The programme aims to enable the islanders to viably sustain their existence while benefiting from the island's rich natural assets. The programme has been flagged as one of the most successful examples of integration between environmental concerns and poverty alleviation among all UNDP projects in the region.

Strengthening National Capacity for Mine Action in Yemen – Phase II, 2003-2007

The projects aim is to assist the Government of Yemen to effectively deal with the humanitarian and developmental problems associated with mines and Unexploded Ordnances (UXOs) through the establishment and training of a national facility for planning, coordinating, implementing and managing all mine action activities in the Yemen.

Strengthening National Capacity for Mine Action in Yemen – Phase III, 2007-2009

The programme will capitalize on the capacities created during the previous phases and will further strengthen these. It aims to assist the Government to effectively deal with the humanitarian and developmental problems of mines and Explosive Remnants of War (ERW) including resource mobilization, procurement and financial management and technical assistance to enable the Government of Yemen to plan, coordinate, implement and manage all mine action activities in the country.

Disaster Preparedness, Management and Recovery – Phase II, 2003-2007

This project aims to provide support to the Government of Yemen in its efforts to successfully respond to the scale of vulnerability and recurrent localized disasters, which include earthquakes, floods, droughts and various epidemics through disaster mitigation, disaster response and recovery. Part of the project focuses on the Hadramout, which was hit with floods in October 2008.

Annex 2: Vocational Training and Education, Women and Youth

Women Education and skills development are important for women in particular due to the horrendous gap in female literacy compared to male. Educational programs are also important for women, as evidence demonstrates that females that are better educated and females who work outside of the home and are generally more empowered are able to make more informed and pro-active reproductive and family planning decisions.

Youth Job creation is particularly important for Yemeni youth. Human capital programs include training and educational programs, including literacy initiatives, vocational training, or like skills classes.⁴⁷ Youth livelihood programs should focus on building human capital, social capital, financial capital, and physical capital. Similar programs are currently or have previously existed in Yemen including a Vocational Training Project of the World Bank, and the USAID Youth Empowerment Program to be implemented by Save the Children U.S. from 2008 to 2010. The *Workforce Development Program Guide* is a valuable resource when designing a program on human capital development, providing guiding questions and a checklist to determine relevant objectives. Social capital provides youth access to mentors, peer support, community building, and positive outlets for self-expression. Constraints to accessing social capital are often cited most by youth in pursuing livelihoods. Financial capital includes access to microfinance and savings programs. Currently about 15-20% of microfinance globally is directed to people ages 18-24. Lessons indicate that programs should utilize partnerships between agencies skilled in youth development and those skilled in microfinance. Studies also indicate that youth especially benefit from savings programs, and are more likely to use and be successful at such programs over using a grant or loan for livelihood development. Physical capital is necessary at times to provide incentives for participation or completion in a program or reaching a certain goal of savings or production.⁴⁸

Box 15: Case Study: Timor-Leste

The Transitional Employment Program (ETP) conducted by USAID's Office of Transition Initiatives in Timor-Leste in 1999-2000 demonstrates the value of using local labor for reconstruction projects. This project successfully created short-term employment throughout the country, also delivering short-term results and impacts. Given Yemen's existing infrastructure constraints, particularly in the areas hardest-hit by the October 2008 floods, such an initiative could be beneficial to creating jobs as well as jump-starting reconstruction efforts that will ultimately lead to further job opportunities and economic growth.
Source: Beasley, Kenneth W. 2006. *Job Creation in Post-conflict Societies*.

Box 16: Project Case Study: Cross-Sectoral Youth Project (CSY)

This project has developed three pilot projects in India, Morocco, and the Democratic Republic of the Congo. All three of these projects could provide resources and best practices for developing and implementing a strategic youth employment project in Yemen.
Source: EQUIP3. "Cross-Sectoral Youth Project." Retrieved from <http://www.equip123.net/webarticles/anmviewer.asp?a=645&z=123> on 09 January 2009.

⁴⁷ James-Wilson, David. 2008. *Youth Livelihoods Development Program Guide*. EQUIP3: Education Development Center.

⁴⁸ James-Wilson.

Box 17: *The Education and Employment (QUEST) Alliance*

The Education and Employment Alliance (EEA) works in six countries with high youth unemployment rates — Egypt, India, Indonesia, Morocco, Pakistan and the Philippines — to develop and expand quality education, job training and placement programs. The program is funded through a four-year \$13 million grant from the U.S. Agency for International Development and \$8 million leveraged to date from the International Youth Foundation (IYF) and its partners. IYF hosts the Alliance’s Global Secretariat and coordinates all Alliance activities. The practices and lessons from these projects would most likely translate well to the environment in Yemen.

Source: Education and Employment Alliance. “Welcome.” Retrieved from <http://www.eeaonline.org/index.asp> on 09 January 2009.

Annex 3: Resources

Title	Author	Year	Subject
Agricultural Rehabilitation	Humanitarian Policy Group	2006	Agriculture
Small scale fisheries in Yemen	FAO	2004	Agriculture
Strengthening Agricultural Markets	World Bank	2006	Agriculture
Yemen Agriculture Project	USAID	2008	Agriculture
Enhancing Government Effectiveness in Yemen: An Assessment of The Ministry of Agriculture and Irrigation	USAID	2008	Agriculture
Fisheries Resource Management Conservation	World Bank		Agriculture
Economic Governance in War Torn Countries	USAID	2004	Econ
Doing Business 2009 Country Profile for Yemen	World Bank	2009	Econ
Conflict and Gender Best Practices	World Bank	2006	Gender
Women in LED	World Bank	2005	Gender
Microfinance Gender Study: A Market Study of Women Entrepreneurs in Yemen	Social Fund for Development	2008	Gender
EIU Country Profile 2008		2008	General
EIU Country Profile 2007		2007	General
Yemen Economic Update	World Bank	Fall 2008	General
Common Country Assessment	UNDP	2005	General
Country Assistance Strategy	World Bank		General
MENA Economic Outlook	WB	2008	General
Poverty Assessment	UNDP	2007	General
PRSP	Rep of Yemen	2002	General
Yemen WB Projects	World Bank	2008	General
CIA Factbook		2008	General
State Dept.		2008	General
Enhancing Government Effectiveness in Yemen: A Country Analysis	USAID	2008	General
Yemen Country Strategy	USAID	2008	General
EIU Country Report February	EIU	2008	General
EIU Country Report May	EIU	2008	General
EIU Country Report December	EIU	2008	General
Government of Yemen's Report to the 2 nd Post-CG Meeting	Government of Yemen	2008	General

Title	Author	Year	Subject
Enhancing Government Effectiveness in Yemen: An Assessment of the Ministry of Public Health and Population	USAID	2008	Health
Africa Challenges in Infrastructure Reconstruction	AfDB	NA	Infrastructure
Private Sector's Role in Infrastructure Provision	World Bank	2004	Infrastructure
Community-Based Development in Conflict-Affected Areas	USAID	2007	LED
Community Driven Reconstruction	CPR	2003	LED
Enhancing Government Effectiveness in Yemen: An Assessment of the Ministry of Finance	USAID	2008	Macroecon
National Reform Agenda	GOY	2007	Macroecon
African Post Conflict Framework	AfDB		PC
Financing and Aid Management	CPR	2003	PC
Post Conflict Economic Recovery	UNDP	2008	PC
Practical Guide to Multilateral Needs Assessments	UNDG, UNDP, World Bank	NA	PC
A Guide to Economic Growth in Post-Conflict Countries	USAID	2007	Policy
Fragile States Strategy	USAID	2006	Policy
Securing the Future	USAID	2008	Policy
Mapping the Market	Practical Action	2005	Private Sector
Market Development in Crisis-Affected Economies	SEEP	2007	Private Sector
Implementing Sustainable Private Sector Development: Striving for Tangible Results for the Poor	Alexandra O. Miehlebradt and Mary McVay	2006	Private Sector
SME Competitiveness Project SOW	USAID	2008	Private Sector
'Work Plan' for USAID from the Small Micro Enterprise Promotion Service	USAID		Private Sector
Transforming development concepts and strategies into sustainable solutions	DAI		Private Sector
Economic Growth Program Evaluation: Evaluation Summary Report.	MSI	2008	Private Sector
Capacity Development: Empowering People and Institutions, Annual Report	UNDP	2008	Private Sector
Economic Opportunity Replaces Conflict in Iraq	USAID		Private Sector
US to lead new anti-pirate force	BBC	2009	Stability

Title	Author	Year	Subject
Model Vocational Training Center in Madaba Changes Jordanian Youths Attitudes Towards Hospitality	USAID		Tourism
Programs Overview	USAID/Lebanon		Tourism
Yemen Trade Growth Options	USAID	2004	Trade
Progress made in Yemen's WTO accession	WTO	2008	Trade
Institutional arrangements to enhance Yemen's non-oil exports	USAID	2005	Trade
Foreign Direct Investment: Taking Off	Financial Times	2007	Trade
Projects in Suez Governorate	USAID/Egypt		Trade
Access to US berry varieties expand Morocco's production and export potential	USAID/Morocco		Trade
Job Creation in PC Societies	USAID	2006	Unemployment
Livelihoods and Conflict	USAID	2005	Unemployment
Workforce Development Program Guide	USAID	?	Unemployment
Vocational Program Appraisal Document	World Bank	2007	Unemployment
Education and Employment Alliance			Unemployment
Innovative Contracts and Sound Relationships: Urban Water Sector reform in Senegal	Water Supply and Sanitation Sector Board Discussion Paper Series	2004	Water
Project Listing	FAO		Water
UNEP support for achieving the IWRM 2005 target 'accelerating the process	UNEP		Water
Al-Saleh Youth Development and Vocational Training Center Support Program SOW	USAID	2008	Youth
Youth Livelihoods Development Program Guide	USAID	2008	Youth
Cross-Sectoral Youth Project	USAID		Youth
Yemen Stability Initiative -- Flyer	USAID		Youth and Unemployment
Yemen Stability Initiative Information Sheets	USAID/Yemen	2008	Youth and Unemployment

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