

**AGENCY FOR
INTERNATIONAL
DEVELOPMENT**



**COUNTRY DEVELOPMENT
STRATEGY STATEMENT**

FY 1981

YEMEN

BEST AVAILABLE

**DEPARTMENT
OF
STATE**

January 1979



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COUNTRY DEVELOPMENT STRATEGY STATEMENT
1981 - 1985

USAID/Yemen
Sana'a, Yemen Arab Republic
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I. SUMMARY

Less than a generation away from bitter poverty and total isolation under Imamic rule, Yemen has advanced quickly to nearly middle-income status on the shoulders of the migrant workers who are its major economic resource. The resulting picture is one of great contrasts.

Unlike other LDCs, the Yemeni people—including their local institutions—enjoy relative financial prosperity. Labor is short, an unusual situation in an LDC, and wages and labor costs are high. While foreign exchange reserves are ample, the central government has been unable to capitalize on the recent prosperity as national income remains almost entirely in private hands.

Yet many of the basic constraints to development are no different in Yemen than in any other LDC. While central government institutions in other countries may be weak, in Yemen they did not even exist until a few years ago. The average quality of life for villagers is still appalling. Natural resources—even agricultural—are severely limited and deteriorating. Yemen's most important resource is its people, and they are mostly illiterate and poorly educated—especially the women.

Thus, it should not be surprising that our basic strategy of concentrating on development of Yemen's human resources and institutions, although adapted to the country's unique conditions, is not dissimilar to most AID programs. However, unlike many other country programs, we are concerned more with saving labor rather than capital. Government budget support is more important than saving foreign exchange, and rural development activities are truly initiated at the local level rather than depending on the center.

The proposed program takes full advantage of local resources and initiative now existing, but is basically a long range strategy aimed at bringing Yemen to the threshold of modernity within a generation.

II. ANALYSIS

A. The Economy

1. Macroeconomic Overview

Yemen's economy is a paradox. Imports exceed exports by more than 100 times, yet Yemen has a positive balance of payments. Foreign exchange reserves exceed 1.3 billion dollars, but government revenues barely cover current expenditures. There is virtually no unemployment and per capita GNP increased by almost 20% in 1976/77 to a respectable \$392.⁽¹⁾ At the same time, all quality of life indicators reveal Yemen's true RLDC status.

Remittances from migrant labor are clearly the fuel of change in this economy. An estimated 550-600,000 Yemeni men (over one-third of the male work force) are working in Saudi Arabia and the Gulf States. In 1977/78 they sent home approximately \$1.3 billion, or \$245 per capita; a ten-fold increase in just five years. The domestic economy has responded rapidly to this stimulus; non-agricultural GDP rose by an incredible 25% (constant terms) in 1976/77. The fastest growing sectors are those most affected by remittances, i.e., construction and trade. Output in Yemen's only primary producing sector, agriculture, fell over 6% in 1976/77. This is partially reflective of weather conditions but also is indicative of the fact that economic growth is induced from outside sources and not based on progress in Yemen's own productive sectors.

Inflation stemming from remittances is a serious problem. Its average rate of 30-40% has eroded many of the gains made through new remittance wealth. Although price increases on imported goods, including food, have moderated over the past year or two, costs for local labor, transportation, construction services and rent have continued to soar as remittances force

a continual expansion of the money supply (up 75% and 42% in the past two years). Unfortunately, due partly to the rudimentary state of commercial banking, over two-thirds of the money supply is outside of the banking system, and the government therefore is unable to have any impact on inflation through monetary policy. The most effective alternative available to the YARG is to encourage imports in an effort to soak up some of the excess liquidity. (Recent expansion of bank credit to the private sector has also encouraged inflation, but this source of pressure should ease as an IMF stabilization program takes effect.) Basically, however, the Yemeni economy is so closely tied to that of Saudi Arabia that inflation is unlikely to ease much until the Saudi economy itself cools down.

Imports also play an important positive role in Yemen's economic expansion. In 1976/77, imports were equal to 40% of GDP and it is only through the importation of capital goods that the modern sector of the economy can establish the productive base that it needs for development. The rapid expansion of the modern sector is reflected by the changing composition of imports in the past three years. During this period machinery and transport equipment increased their share of total imports from 17% to 30% while food imports fell from 44% to 25%.

Total government domestic revenues for 1978/79 are expected to be \$487 million, an impressive 42% increase over the previous year. However, government revenue is as dependent upon remittances as any other aspect of the economy. In fact, customs is the government's only significant means of taxing the remittance flow. In 1978/79 it is expected that taxes on international trade will account for 64% of total revenue. This is true even though foodstuffs, which account for 25% of imports, have very low or non-existent

customs duties and large volumes of other goods are smuggled. Central government revenue from other taxes is low due to the small local tax base and collection problems outside the main towns. In 1976/77, tax revenue equalled only 17% of GDP, and because of the government's inability to tax remittances directly, it is unlikely that this share will increase greatly over the foreseeable future. Outsiders are quick to suggest the obvious solution, i.e., direct taxes on remittances. However, YARG officials have been adamant in their position that even if it were administratively possible (which it now is not) it is politically infeasible to cut directly into so many Yemenis' new-found prosperity. Nevertheless, the present situation cannot continue indefinitely; the YARG must find acceptable policy measures to increase its share of GNP and to direct a higher proportion of remittance income into development programs. In the meantime it is important to keep in mind that virtually 100% of remittance income flows to private individuals--he who earns it, keeps it--a situation clearly on the side of equity. While this still leaves the central government relatively poor, it presents unique opportunity for privately initiated development in the rural areas; something that is quite clearly happening. For example, villagers are taxing themselves on an ability-to-pay basis to finance local projects and recently created city governments have been given limited taxing authority.

The YARG's 1978/79 budget will have a small surplus on current account but the overall deficit will be about \$219 million or 31% of the total budget. The deficit will be financed through foreign assistance and Saudi budgetary grants. On the expenditure side, defense received the largest share of the total budget with 22% followed by education 12%, finance 10%, public works 9%, and communications, interior and economy with 7% each. These

seven ministries accounted for 74% of the budget. Agriculture and health lagged behind with 3% and 4%, respectively.

As indicated in the following table, there has been a notable increase in capital expenditures as a proportion of the total budget.

Current/Capital as a Percent of Total Budget

	<u>1974/5</u>	<u>1975/6</u>	<u>1976/7</u>	<u>1977/8</u>	<u>1978/9</u>
Current Expenses	82	77	66	59	52
Capital Expenses	18	23	34	41	48

These high and increasing levels of capital expenditure imply increasingly larger current expenditures to support and operate the capital projects currently being implemented. Thus it is likely that the present surplus on current account will not last long unless the trend is reversed or ways are found to increase government revenue.

Budget allocations to defense have continued to decline from a high of 43% in 1974/75 to 22% this year. (Hardware is largely supplied by Saudi and other donor grants.) An estimated 15,000 to 30,000 men are in the armed forces. This is 1 to 2 percent of the males aged 10 and above, although it is a somewhat higher proportion of males actually resident. (By comparison, U.S. defense expenditures were 26% of the budget in 1977/78 and 2.5% of American males aged 15 to 64 are in the armed forces.) No one in the Yemeni armed forces is known to have a college education and desertions are common as soldiers who learn skills leave for better paying jobs. Since the army is one of the few institutions providing vocational training, it may in fact have a modest positive impact on human resource development. Given the existing security situation both internally and vis-a-vis South Yemen, the YARG's

resource allocations for military purposes do not appear excessive.

As indicated in earlier paragraphs, Yemen faces difficult resource mobilization and allocation problems. However, these should not obscure the significant--albeit fortuitous--progress made over the past several years. For example, gross national savings increased from 7% of GNP in 1970/71 to 24% in 1975/76. Similarly, current domestic government revenue was only 57% of current expenditures in 1970/71, whereas in the past two years the current budget has yielded a surplus. The rapid increase in public investment, although it presents inherent problems, is also a significant achievement.

2. Migration and Remittances

This phenomenon needs closer scrutiny since it affects more Yemenis more acutely than any other aspect of contemporary economic/social life. Yemen has had a long history of migration to all parts of the world and the Swiss verification of the 1975 population census shows relatively equal distribution of migrants among governorates. Most migrants work in Saudi Arabia and are unaccompanied by family members. Workers usually have a savings target in mind and their length of stay varies depending upon wages. For an unskilled Yemeni laborer, wage levels in Saudi Arabia and Yemen are drawing closer, with Saudi employers now paying 60 to 100SR a day (\$20-\$33) while in Yemen the daily hire wage is 80-90YR (\$18-\$20).

Although Yemen's future in the Saudi Arabian labor market cannot be known with certainty, we expect that Yemenis will continue to work there in large numbers for the foreseeable future, definitely throughout our planning horizon. While the rate of growth in remittances will not be as dramatic as it has been in the past, we believe total remittances will continue to increase.

Although the Saudi government has recently approved measures which require all immigrant workers in the Kingdom to hold work permits, Yemenis continue to be exempted from recruitment regulations and are able to move from job to job as employers outbid each other for their services. They are, in fact, a distinct class of laborers as they are the only mobile, unrestricted work force in the Kingdom. What impact future changes in regulations will have is unknown but, barring any sharp reversal in relations with Saudi Arabia, we feel the demand for Yemeni labor will continue well into the future, since it is clearly in the interests of both countries.

One result of migration, of course, is a labor shortage in Yemen. However, the YARG has very little potential for controlling migration even if it wished to do so, and its de facto policy is to do nothing about it at all. Since the government does not control the northern frontier and Saudi entrance requirements are perfunctory, workers can cross the border quite freely without passports.

Workers' earnings have accomplished what many development projects strive for: they have put income directly into the hands of people. Without any direct tax on remittances, the worker and his family keep all that he earns. Remittances are apparently being used primarily for housing construction and increased consumption of food, clothing and luxury items such as radios, watches and jewelry. Young men spend large shares of their remittances on bride prices, which are rapidly inflating, and the purchase of small electrical generators is popular. Some people use part of their remittances for other investment purposes, usually in the areas of transportation (trucks and taxis) and trade. A portion of remittance money is also going into public investment, especially roads and water projects, by way of Local Development

Associations (LDAs). While we know something about the disposition of remittances, a good household expenditure survey is needed to illuminate precisely what sort of investment and change is taking place in the rural areas as a result of this phenomenon. In general, we expect continued growth of remittances and, as a result, of GNP.

3. Domestic Economy

a. Agriculture

Although agriculture remains the largest sector of the domestic economy (37% of GDP in 1976/77), its relative contribution has been steadily declining since 1974/75. Nonetheless, the sector has now and probably will retain an importance out of proportion to its share of GDP for two main reasons: First, it is the only known exploitable natural resource. Second, most of Yemen's stay-at-homes depend on agriculture for all or a portion of their cash income and subsistence. At least 80% of the population lives in rural settlements of 500 people or less which are scattered over the country in extremely diverse ecological zones. About 70% of the domestic labor force is employed at least part time in agriculture.

As mentioned above, Yemen's only known exploitable natural resources are agricultural; i.e., its soil and water. Yemen has 1) a high and fairly reliable supply of rainfall relative to the rest of the Peninsula (as much as 1,000 mm/year in some regions); 2) environmental diversity that permits production of a wide range of crops, from tropical to temperate; 3) relatively fertile soils (where they exist); and 4) an intensive terrace system for soil and water conservation amounting to a capital investment of literally millions of person-years. Consideration of Yemen's agricultural

resources must also include its highly motivated and knowledgeable peasant farmers, who have successfully practiced sound, intensive agriculture under different environmental conditions for several millennia.

On the other hand, the potential for development of this resource is limited--agriculture alone cannot and will not support development of the overall economy. Only 15% of the total land area is potentially suitable for farming, with actual area planted often varying widely from year to year as a result of erratic rainfall patterns. Population density relative to cultivable land is very high (roughly comparable to India). And while rainfall is generally sufficient to support production of subsistence food grains, it is not enough to enable widespread increases in productivity to be achieved and maintained given current technology. Presently only 15% of the regularly farmed land is under irrigation, the effectiveness of which varies widely. Productive areas are generally small and dispersed and individual holdings highly fragmented, with consequent diseconomies of scale in production and marketing.

Yemen's agriculture faces potentially serious environmental problems as well. Demand for firewood and forage has resulted in total deforestation and widespread destruction of ground cover (actual forests have probably not existed in Yemen for centuries). Widespread soil erosion has been minimal due to the generally low rainfall and careful soil conservation in the form of terracing. However, as labor continues to leave the agricultural sector, terrace maintenance is being neglected--a fact with potentially serious long run implications.

Due to poor ground cover the runoff from rainfall is very high. Thus far the silt-laden runoff has been productively used through the

practice of spate irrigation, principally in the Tihama. However, significantly accelerated erosion in the highlands could negatively affect this practice as well. Yemen's ground water resources are in a state of precarious balance overall, and are being rapidly depleted in some areas.

Farms are generally small (less than 2 hectares) and badly fragmented. Small individual holdings appear to be the norm in the highlands, although sharecropping is also quite common. Sharecropping is due in part to logistics--holdings are often too fragmented for efficient operation--and also to matters of social status. Large holdings, both individual and waqf (religious trust) are more common in the Tihama. Sharecropping terms vary widely and there appears to be a shift underway from share to cash rents. In general, tenants receive 1/4 - 1/3 of the crop on irrigated land, and 1/3 - 1/2 in rainfed areas. There is evidence from the Tihama that traditional sharecropping arrangements can and do inhibit agricultural innovation, at least in the short term.

Subsistence grains (chiefly sorghum and millet) account for the bulk of crop acreage. Yields remain fairly stagnant at around .75 mt per hectare. Overall output of grains is so highly dependent on rainfall that it can fluctuate sharply from year to year thus masking real economic trends. Average real annual growth in value of agricultural production over the past five years has been about 3%, ranging from -10% to +28%. In 1976/77 there was a decline of over 6%.

Qat^{1/} is the principal cash crop, followed by grapes and cotton. The qat boom is of relatively recent origin as it is only over the

^{1/} A mildly narcotic leaf chewed by most of the population from the age of puberty. The psychological and economical impacts of its use are hotly debated.

past few years that the populace has possessed sufficient discretionary income to consume significant quantities. (Estimates of spending on qat consumption range as high as 30-40% of family income.) Qat is now produced on approximately 2% of the total regularly-cultivated land, and within its environmental range there is no other crop that can begin to compete with it. It can survive and produce with as little as 300 mm of water per year (coffee, by comparison, requires a minimum of 800 mm), requires low initial investment, yields quickly and throughout the year, and requires little labor. Annual gross return per hectare ranges between YR 40-120 thousand. It is, in short, the ideal crop for large areas of the country. The area in qat is continuing to expand but largely at the expense of sorghum rather than coffee as was previously hypothesized. It is specifically mentioned in the Five Year Plan as a major obstacle to development, but no effective counter-measures are presently possible, even if actually desired.

Agriculture is being affected by migration and the consequent economic changes. Wages for agricultural workers are soaring (with no associated increases in worker productivity), and in some areas marginal land is being withdrawn from production. The observable lack of terrace maintenance and implications thereof were discussed above. In addition, with increased disposable income consumer demand is changing away from sorghum in favor of wheat and rice, neither of which can be domestically produced in significant quantities.

However, in spite of the numerous problems (physical as well as economic), there is reason to believe that the productivity of present major inputs (land, labor, water) can be significantly increased in limited areas, given supportive policies. Research on more productive technologies

appropriate to Yemeni conditions is just getting underway. Some unexploited ground water resources do exist, and there is room for massive improvements in irrigation efficiency. Where adequate water is available the potential benefits of fertilizers and chemicals are large. Appropriate mechanization to enhance labor productivity is clearly called for and, to a limited extent, is taking place (primarily in tractor use). Aforestation and improved range management have distinct potential. The productivity of Yemen's rainfed agriculture can also be improved somewhat, chiefly through better plant protection and pest management measures.

On the whole, therefore, while the YARG's stated goal of agricultural self-sufficiency is unrealistic and not in its best interests economically, agricultural potential (primarily in irrigated, cash crop production) does exist. It is clear that the internal market for such products is growing and an observable shift from subsistence to market-oriented production is underway and should be encouraged, along with development of a broad indigenous agriculture research and extension capability.

b. Other Sectors

Following agriculture, the most important sector is trade and commerce, accounting for 37% of GDP in 1976/77. Significant amounts of remittance income are being invested in shops, in trucks to haul imports, and in inventories. Trade appears to be the sector which provides the remittance nouveaux riches the means of upward social mobility. Assuming continued migration and remittances, the limited productive potential of Yemen means that imports will continue on a large scale and will continue to stimulate growth in trade and commerce. Yemen's trade will continue to be based mainly on

labor remittances and imports.

The transportation sector has expanded rapidly as roads are built to carry imports to the villages. The construction sector is booming as migrants build houses and invest in shops. The finance and banking sector has likewise grown rapidly due to remittance-related activity.

The industrial sector is extremely small, accounting for only 6% of GDP in 1976/77. Industrialization in Yemen is hampered by the lack of a comparative advantage in any industry; there is no surplus, cheap labor to exploit and, with the exception of salt, Yemen has no known marketable natural resources. Any future mining or quarrying possibilities will have to face the constraint of limited water. Therefore, the sector is expected to grow only slightly during the Five Year Plan with most of the growth being accounted for by the electricity and water supply sub-sectors.

B. Government and Politics

1. Internal Political Dynamics

Government in Yemen today remains largely an uneasy coalition of tribal, military, economic and religious factions. The present central government remains largely under the control of the military, and is seeking to create a base of popular support. A "People's Constituent Assembly" has been in existence for roughly the past year, but does not yet play a significant role in policy formulation or implementation. The power of the central government is severely circumscribed, with large areas of the country lying outside its effective authority. The physical location of the country, between Saudi Arabia and the People's Democratic Republic of Yemen with their diametrically opposed political, social and economic systems, does not contribute

to internal stability. The present government, under the influence of the Saudis, follows a cautiously pragmatic domestic policy and a moderate foreign policy linked closely to that of Saudi Arabia. The overall political swing to the right over the past year has led to a reduction of tensions between the government and the northern tribes, but to a corresponding increase in tension along the southern border. The basically conservative orientation of the present military government and the religious community is an internal factor that affects the overall pace of modernization.

In spite of the various constraints, political transformation is accompanying the economic changes. A younger generation of leaders--educated, entrepreneurial, positively inclined toward change--continues to assume positions of authority in the government, LDAs and private sector. The military leaders seem content to entrust the day-to-day running of the government and administering of development programs to a group of relatively young, increasingly western-educated, technocrats who have remained essentially unchanged through all the recent political upheavals, thus providing a degree of much-needed continuity. The central government itself is continuing to gradually expand its presence into the hinterlands, and the basic commitment to change and development on the part of its political leaders (albeit within definite internal and externally-imposed limits) cannot be denied.

2. Government Infrastructure and Administration

While the YARG's commitment to national integration and development cannot be denied, its ability to play an effective role is extremely limited. With no colonial heritage and near total isolation from the developed world until 1962, there is no background in public administration comparable

to that of most LDCs. In the roughly eight years since development can be said to have begun, significant progress has been made but the needs remain enormous. The revenue base of the government remains largely confined to customs duties, with the bulk of the economy totally beyond its control. The civil service is in its infancy; trained planners and administrators are in extremely short supply (expatriates fill a large proportion of the middle level positions in most ministries); and the government's wage structure is such that good employees are hard to attract and harder to retain. As a consequence, the central government services normally offered by most LDCs (basic health care, education, agricultural extension, communications, basic data collection) are almost non-existent. Instead, the central government's role is largely confined to one of reaction to pressures and initiatives from local authorities and various donors rather than effective, self-initiated action.

3. Local Infrastructure and Administration

In view of Yemen's history of strong local (kin and tribal) loyalties and initiative it does not come as a surprise to find that a large share of the impetus for development (in the form of roads, schools, clinics, water systems, electrification) is of local origin; the remittances flowing back to the villages have merely made possible a much wider range of options. This local initiative manifests itself both through the system of Local Development Associations (LDAs)^{1/}, organized at the district, governorate and national levels, and through informal tribal/traditional channels.^{(2) (3)}

The LDA network certainly provides the most significant structure and means for bringing about rural development throughout the countryside.

^{1/} The number of LDAs being formed continues to grow; as of January 1979 there were 187.

The district-level LDAs have a significant financial base in that they retain 3/4 of the locally-generated zakat (traditional Islamic tax on production and wealth) and also receive the proceeds of a special 5% "cooperative" tax levied by the YARG on all imports. LDAs also rely heavily on local contributions above the zakat for specific projects. At the national level the Confederation of Yemeni Development Associations (CYDA) provides accounting and resource allocation functions as well as providing limited technical expertise to LDAs. Perhaps the most significant fact about the LDA movement is that the financial and human resources exist largely at the local, not the national, level. As yet neither CYDA nor the central ministries have the capacity to provide much in the way of guidance or services to the LDAs, but a strengthened CYDA would have considerable potential to stimulate and support local development throughout the country.

C. Human Resources, Population and Technology

Human resource development in Yemen was virtually stagnant under Imamic rule. The Imam allowed only a few young men to leave the country for higher education and many of these people did not return until the end of the civil war in the late 1960's. Secular education did not begin until 1963. Even today, only 29% of primary aged school children are enrolled and only 8% of the children of preparatory and secondary age attend classes. Literacy is 25% for males but only 2% for females. By 1975, only 1,200 women had progressed beyond the level of primary education. Not only is Yemeni education low in quantity, it is low in quality as well. The vast majority of teachers are grossly underqualified. For example, no more than half of the primary school teachers have as much as a primary school certificate themselves.

About one-fourth of the resident labor force can be classified as semi-skilled and only 3% of the total as fully skilled. The predominance of unskilled workers is indicated by the fact that in 1975 four out of five workers were illiterate. The labor force must therefore be upgraded if the country is to progress. While many migrants are picking up skills through on-the-job training abroad, a much more concerted effort must be made at skills training. Yemenis are respected for being hard working and industrious, but significant further progress depends in large measure on better education.

The public sector reflects fully the existing human resource problem. In 1975, only 8% of the civil service had preparatory or secondary education and only 3% had post-secondary training. The great majority were illiterate or had less than primary education. This situation results from the general shortage of educated people and also from the extremely low levels of government salaries relative to rapidly inflating prices in the rest of the economy. An intensified effort to train, attract and retain better qualified government employees is necessary to complement the high levels of public investment being projected.

Yemen's population is an extremely young one with over 47% under the age of 15. Estimates of the population growth rate range from 1.8% to 3% but figures from the most reliable source put it around 2-2.2%. High levels of infant mortality, a low life expectancy and the large number of absent husbands due to migration currently keep population growth somewhat in check. However, as levels of health slowly increase, a rise in population growth can be expected. To address this inevitable problem, the Yemen Family Planning Organization was established in 1976 with tacit government approval. The Organization runs clinics at the hospitals in the major cities where they

supply contraceptives, perform abortions and give advice. Most foreign donor clinics are also active in family planning activities which reach some of the rural areas. Contraceptive pills are available without prescription in pharmacies throughout the country and the receptivity to family planning is relatively high. According to still fragmentary evidence, a surprisingly large number of families are practicing child spacing at their own initiative.

Progress in family planning has been made over the strong opposition of conservative religious leaders. Due to the shortages of labor resulting from migration, there are strong feelings throughout the country that there is no population problem and this is reflected in the attitude of many government officials. Future progress in overt family planning activities must proceed slowly so as not to alienate any segment of society. However, as in other areas of social and economic life, we believe the major impetus in family planning will arise from Yemeni citizens acting on an individual basis.

Technological change in Yemen has been extremely rapid as remittance wealth has provided the cash to purchase new technologies and as migrants return with the new ideas they have picked up in Saudi Arabia. Money itself could be termed a new technology for Yemen, facilitating the rapid expansion of the commercial sector. Technological change is everywhere--people who last year walked long hours to the market now ride in new Toyotas. Televisions, radios and improved construction methods are abundant. Television has been the impetus for electrification in Yemen rather than vice versa.

Yemen has one of the most laissez-faire economies in the world. There is no lack of entrepreneurial motivation and an incredible array of small shops has opened over the past few years. However, lack of education hinders the entrepreneur's ability to expand his operation efficiently and the

knowledge needed to maintain his equipment lags far behind. Knowledge is also lacking in the ability to identify the most appropriate technologies and capital is currently being wasted on the purchase of inappropriate goods such as oversized tractors. Extension of this entrepreneurial activity into manufacturing and larger distribution systems will take some time.

D. Social Structure

Perhaps more dramatically than most developing nations, Yemen is in the throes of rapid social change. Economic forces are altering the social fabric in ways not yet fully understood by the Yemeni people, their government or interested foreigners. Today's Yemen is a mingling of fierce Islamic traditionalism and dynamic modernization, of abject poverty and relatively widespread new wealth.

Much of the modernizing influence derives from remittances and its spread effects. Few areas remain untouched in some way by the flow of out-migrants and the money they are able to bring or send home. The economy has become largely monetized (the first Yemeni rials were printed only in 1963) and many patron-client relationships have broken down, encouraging social mobility based on personal achievement. Significantly, most of the mobility in the traditional group has been downwards with sons of landlords and the religious elite entering the remunerative commercial sector--a sector which was previously viewed as too demeaning for them. On the other hand, the mobility is also allowing farmers to leave the subsistence sector. Money and education are becoming increasingly critical resources for upward mobility. Increased wealth is also leading to a higher incidence of nuclear families as young men now prefer to set up their own households. Traditional tribal

controls are giving way to new forms of local organization and young sheikhs full of progressive ideas are competing with older traditional and religious sheikhs in many villages.⁽²⁾

Consumption is modernizing the lifestyle of many. Radio, cassette recorders (already widely used for letter tapes between separated marriage partners), vehicles and consumer goods of all descriptions are all forces for altered relationships and set the stage for still more social change.

Perhaps one of the most significant social changes is in the role of women.⁽⁴⁾ Traditionally, women have married young and have been looked on solely as bed partners, housekeepers, water carriers and as child bearers and raisers. Due to the labor shortage from the migration of large numbers of husbands and brothers, women are taking on many traditionally male tasks as well. In some areas women and children already make up much of the agricultural labor force. In addition, it is expected that the birth rate will decrease somewhat due to the emigration and thus the women's burden of child bearing should decrease. Husbands are bringing back contraceptives from Saudi Arabia and their use is on the increase. Women are gaining far more economic power than they ever had before. They are spending some of the money sent home and many manage households while men are away. A number are participating in investment decision making, and some are beginning to take jobs in banks and government. Even the use of the veil seems to be declining among the urban girls and young women. While opinions may differ as to the real meaning of the change now occurring, the momentum of change will surely grow.

E. The Poor

1. Statistics of Poverty

Although statistics on the poor are hard to obtain and unreliable, most quality of life indicators remain abysmally low and decidedly typical of a hard core RLDC:

- a crude birth rate of 46 per 1000, a crude death rate of 25 per 1000 and an infant mortality rate of at least 150 per 1000;
- a life expectancy of only 37 years;
- an average female marriage age of 14;
- an average of 6.8 live births per woman;
- a doctor-person ratio, excluding the three major cities, that ranges from 1/26,000 to 1/157,000;
- a widespread incidence of diarrheal diseases, tuberculosis, malaria and schistosomiasis, with underlying causes associated directly with ignorance of personal hygiene practices and poor quality potable water;
- a lack of access to water, with only 8% of the population having easy access and 88% dependent upon unreliable or unclean sources;
- no public sewerage facilities;
- an inadequate nutritional level (one which may actually be declining due to changing diets);
- low school enrollments and a literacy rate for males of 25%, only 2% for females and an average of 13%.

2. Definition of the Poor

While the quality of life indicators show Yemen worse off than most LDCs and many other RLDCs, the country's advantageous situation with res-

pect to migration and the ability to earn high daily-hire wages lead, to an unique definition of poverty within the country--many people are rich in cash terms but almost all are abysmally poor in basic human needs and services.

While the entire country is very resource poor, there is relatively equal access to migration opportunities throughout the country. For one of the few times in the history of developing countries, most income is flowing to the poor as the unskilled take jobs out of the country. Obviously, people who are better educated will earn higher wages and people from areas of higher migration will have an easier time migrating but, in general, access to emigration is not denied to anyone, except women.

The benefits accrue primarily to the families of people who migrate but there are significant secondary and tertiary effects. As migrants return and spend their income on, say, improved housing, they generate a demand for locally employed labor in the quarrying, transportation and construction sectors. The labor shortage within Yemen due to labor migration leads to high wages at home and thus the benefits of remittances filter down to a significant proportion of the "stay-at-homes" as well.

For the most part, people are not poor when measured on an available cash basis. Remittance money has alleviated some poverty through the increased ability to consume and few people are actually starving in Yemen. Large amounts of money have been spent on increasing the quantity of housing although increases in quality are dubious. However, remittance wealth alone cannot buy adequate supplies of such public goods as health, education, potable water, sanitation, communications and transportation. The rural areas of Yemen are almost universally lacking in these basic human needs and thus, as a generalization, one could say that people in rural areas are all very poor

in services and in almost every quality of life indicator except cash. Private initiative has begun to solve some of the problems: LDAs are building roads and water systems but they cannot begin to deal with larger problems such as health. The problem of providing services to the rural areas is exacerbated by the fact that almost 80% of the population lives in settlements with under 500 inhabitants.⁽⁵⁾

Looking further, one can ask who is relatively poorer within Yemen. Using agricultural resources as a criterion, there is a general consensus among the government and donors that the Tihama area is probably the poorest section of the country. This is the area where rainfall is the most sporadic and agriculture is the most marginal (with the notable exception of the spate irrigated areas along the major wadis). The inhabitants of some settlements are forced from time to time to abandon their huts for some months, or even years, to earn their living as migrant laborers in more prosperous agricultural areas. Some Tihama migrants also move to the larger cities within Yemen obtaining jobs such as street cleaners. If access to capital is a criterion, the Tihama area is still generally worse off. The poorest people often cannot obtain sufficient starting capital to migrate to Saudi Arabia as they are eeking out such a marginal existence that their family could not survive in their absence.^{1/} It is clear from observing the geographic areas which have made the most progress in the past decade, access to education and the outside world are important criteria. The southern parts of the country which have had close historical ties to Aden have made much more progress than

^{1/} The situation in this area may change in the near future. A major Saudi-financed road from Hodeida to Jizan will pass through this area thus creating new economic opportunities in the services sector and easing the costs of migrating to Saudi Arabia for work.

the more remote northern sections of the country. Because of their previous educational advantages, a disproportionate number of government bureaucrats and secondary school students come from the southern part of Yemen.

Thus, the poorest areas within Yemen can be defined on an agricultural and geographical basis as well as by access to capital resources, education and exposure to the outside world. In addition, it goes without saying that women are worse off than men since they have less access to education, social mobility and economic opportunity.

F. Growth and Equity

1. Concepts of Equity

There is little doubt that Yemenis perceive their society as reasonably equitable. Access to increased personal wealth through the migration option is available to all; education and health facilities are equally available (or unavailable) without social or economic distinctions and usually at only nominal cost; and provisions generally exist within the family, tribe or village for care of the destitute (widows, orphans, infirm, mentally ill). It must be kept in mind, however, that these are concepts of equity within a conservative Islamic context. Things that would immediately impress a westerner as glaring inequities (e.g., status of women) are not generally viewed as such and action to accelerate radically the rate of change in such situations would undoubtedly provoke strong negative reaction.

2. YARG Policy and Commitment Regarding Growth and Equity

a. Historical

Pre-revolutionary Yemen was essentially a theocratic, authoritarian, feudal society. Absolute political power was in the hands of the

Imam who insured tribal loyalty through the practice of keeping hostage the sons of powerful sheikhs. Central and rural "administration" was the near-absolute prerogative of the hereditary "Sayid" class (descendants of the Prophet Mohammed). Only Qaranic schools existed, there was no banking system, no civil service, no national army to speak of--none of the trappings normally associated with a modern state.

In the years since the 1962 revolution and the roughly eight years of civil strife that followed, significant strides have been taken in terms of political and economic development and increased equity. The Sayids were almost completely removed from their predominant political/administrative roles, and a meritocracy substituted instead. A secular education system (though still heavily Islamic) was established, public health services initiated, banks established, political/social/economic contacts with the rest of the world actively pursued. Fairly recent developments include the establishment of a civil service and the initiation of public budgeting. A strong Central Planning Organization, chaired by a Minister for Development, was organized to oversee, coordinate and monitor the nation's overall development efforts. And while performance has often lagged behind intent, the YARG's basic developmental orientation is clear and fairly consistent. The disenfranchisement of the former hereditary elite, the move toward a meritocracy, and the initiation of public services also are certainly steps in the direction of equity.

b. Contemporary

As pointed out in the discussion of the Five Year Plan, the government proposes to continue emphasis on infrastructural development, expansion of health and educational services and increased domestic productivity.

The question of equity is, however, not explicitly addressed, both for political reasons and because, as pointed out above, most Yemenis probably regard their society as already quite equitable.

The government implicitly touches on the equity issue, or at least its perceptions of the issue, in its emphasis on expanded access to public services for the entire populace coupled with continued economic growth. A particularly important point is the stress placed on the education of women. However, the Plan does conspicuously not touch on the issue of the distribution, much less re-distribution, of the primary factors of production--most importantly, land--and the possible results in terms of increasing inequity and consequent political instability. The focus is definitely on growth as a means of addressing equity, with explicit consideration of the possible failure of this approach left in abeyance.

3. Reality of Growth and Equity

Given the prevailing perceptions and policy, it is possible to delineate several areas of significant inequity pertinent to AID considerations.

a. Equity of Women

The YARG does not address the matter of social inequities, the most apparent of which (as mentioned above) is that of the status of women. Although, as noted previously, the change in the role of women has been quite significant, this change is occurring largely within the confines of social parameters which themselves have seen little change and is proceeding in the absence of any strong official support beyond expanded primary education. Within the realm of home and family women do possess well-defined rights and privileges under Islamic law and tradition, and exercise considerable authority.

However, access to the wider sphere of modern economic, social, political and religious activity, while increasing--particularly with regard to economic activity in rural areas--remains limited. The numbers being affected by change, although significant in that they exist at all, remain small and the rate of change slow. Nor is change proceeding unopposed. The subservient status of women enjoys the endorsement of organized religion and, for example, while the percentage of girls in school has increased dramatically in relative if not absolute terms, the word "school girl" is still often used as a term of opprobrium. In view of the resistance to change regarding women's roles throughout the society, it appears that at present the most effective way to nurture change in this regard is a low-key push for increased support of government programs for the education of women coupled with a program of improved community services.⁽⁴⁾

b. Rural/Urban Equity

There is undoubtedly some rural/urban inequity in the apportionment of capital resources for infrastructural development (e.g., water and sewerage, transport, communication and power). This may be unavoidable in the short run, as urban areas are a recent phenomenon and their development will be required for long term economic growth. Logistical considerations also mitigate in favor of an urban bias in such matters. It should also be kept in mind, however, that most YARG officials are first generation urban dwellers with close ties to the rural areas and strong parochial interests in seeing economic growth in those areas.

A possibly more significant manifestation of urban policy bias on the part of the YARG is that of food and agricultural price policy. The government has adopted a de facto policy of cheap food for urban consumers

to the detriment of the nation's farmers who find themselves unable to compete, due to production/marketing inefficiencies and high labor costs, with imported food that enters the country under low or non-existent import duties. A government seriously intent on broad-based agricultural development will have to begin considering the probable long-run impact of this policy and the desirability of selective protectionist measures.

c. Equity of Wealth and Income

The equity of wealth and income distribution within Yemen is not clear. Certainly, all Yemenis appear to be sharing in the country's new-found prosperity to some degree. The migration option is open to all, at least in theory. However, the benefits of migration and relative domestic prosperity tend to vary directly with education and skills possessed, and while opportunities undoubtedly exist for poorer Yemenis to improve their economic status, even greater opportunities are resulting for the educated and skilled, and those with capital to invest in land, housing and commerce. Land holders, especially those in urban areas, are enjoying windfall profits while those without land are finding it almost impossible to acquire. The rural families who have no surplus labor to send to Saudi or the cities are certainly the ones being hurt most by current economic changes; their cost of living is rising dramatically due to the remittance-generated inflation but their incomes, except to the extent that they produce cash crops, is not. Thus it is entirely possible that, while economic gains are being registered by almost all segments of society, the overall distribution of wealth may be becoming more inequitable. More research is definitely needed on this point.

d. Equity of Access to Basic Human Needs

Apart from factors related to income distribution and wealth and to a lesser extent urban/rural location, the primary inequities of access to basic human needs appear to be geographic within the rural sector. The rural population is widely dispersed. The distribution of adequately staffed schools and clinics tends to be a function of access, which is still a major need in itself. While the YARG is investing heavily in roads, it will be a long time before rural sector has an even minimally adequate transportation network comparable to those of most LDCs. Thus, health and education facilities remain few and widely scattered; they do not begin to meet the needs. There is undoubtedly a degree of racial discrimination against blacks (predominantly resident in the Tihama), but it does not appear to be a significant factor in the development and provision of services, i.e., there are no indications that the Tihama is being deliberately slighted by the central government in the apportionment of basic infrastructural investment.

4. Human Rights

In the human rights realm, Yemen has probably regressed somewhat over the past year. This is undoubtedly due to the stepped-up international and domestic political pressures the government is facing and a consequent need for increased internal security. The number of arrests on vague security grounds has increased and both domestic and international movement have come under tighter supervision/control. A number of people were executed in the aftermath of the October 15 coup attempt. However, on balance, the overall record is no worse, and probably better, than that of other states in the area.

G. The First Five Year Plan

Yemen's Five Year Plan covers the period 1976/77 to 1980/81. It calls for a total investment of \$3.5 billion (constant 1975/76 prices) or an average expenditure of \$700 million per year. This is four times the actual level of investments in 1975/76, the last year before the Plan started. On a per capita basis, the plan will spend \$135 per person per year. The basic push is for continued rapid growth in GDP (targeted average annual growth rate of 8.2%), with concurrent development of the infrastructure (primarily physical) to facilitate future growth. Of the total planned investment, 22% will go to industry, 14% to agriculture, 31% to transportation and communication, 13% to housing, 5% to education, and 2% to health; making the Plan heavy in infrastructure development.

Forty-eight percent of the budget will be invested by the government, 42% by the private and mixed sectors and 7% by Local Development Associations. The plan will be financed largely by external loans and grants (53%). Internal financing will come mainly from the private sector and is expected to be financed primarily from current remittance earnings.

1. Progress Under the Plan

The government is generally satisfied with the progress made in the first year of the Plan. As the following table shows, total investment nearly met first year targets. However, this was achieved only because the private sector exceeded Plan targets for investment in housing (nearly double) and transportation. Government investment lagged seriously, especially in production sectors. Most important, investment in agriculture was only half of that planned. If this overall trend continues, private consumption-related

investment will significantly exceed targets and the Plan will fail to meet the objective of establishing a firm production base for future development.

Five Year Plan Investment (Constant 1975/76 Prices, YR Million)

	Actual 1975/6	Planned 1976/7	Actual 1976/7		
			Private	Public	Total
Agriculture	106.4	154	49.7	24.3	74.0
Industry	51.3	270	22.8	28.9	51.7 ¹
Construction	9.8	32	18.7	4.7	23.4
Transportation	231.9	347	347.8	128.3	476.1
Housing	285.7	305	575.8	-	575.8
Other	<u>87.9</u>	<u>154</u>	<u>14.1</u>	<u>77.6</u>	<u>91.7</u>
Total Fixed Capital	773.0	1262	1028.9	263.8	1292.7
Changes in Stock	<u>397.0</u>	<u>340</u>	<u>-</u>	<u>-</u>	<u>270.4</u>
TOTAL	1170.0	1602	1028.9	263.8	1563.1

1/ Industrial sector achievements subject to revision upwards by CPO.

2. Validity of the Plan and Constraints

The Plan defines projects for two-thirds of the investment but leaves one-third undefined for projects which are small and dispersed, most of which fall into the private sector. Since remittances are expected to continue at over \$1 billion per year, it is a safe assumption that overall private investment goals will be met. However, there is already evidence (see above) that there will be major shortfalls in government investment and that the planned sectoral distribution of overall investment will not be achieved.

The Plan is thorough in laying out what it plans to do, but is weak on how it will be implemented. The major constraint on implementation is

the lack of human resources. This has two major aspects. The first of these, and probably the most serious, is the lack of administrative and technical expertise within the government agencies responsible for designing and implementing programs. Many projects do not yet have feasibility studies, and the time necessary to bring projects to the implementation stage may put the actual investment past the end of the Plan period. Personnel and facilities for operation and maintenance are also scarce, so the productivity of completed projects may not meet expectations, at least initially. It is evident, therefore, that a broad range of technical assistance will be needed to carry out the Plan.

The other aspect of the human resource constraint is that Yemen, unlike most other RLDCs, suffers from a general shortage of labor in all categories, including unskilled. In the short run, this constraint can be alleviated somewhat by such measures as turn-key contracts, labor imports and capital-intensive construction methods. However, there clearly is a need to accelerate vocational and technical training and basic education.

3. Impact of the Plan

The government's main commitment is obviously to infrastructure development, with the large cities receiving major emphasis. This is not entirely out of keeping with Yemen's needs. City living conditions are difficult for all, including the many poor who live there. Other infrastructure projects, although they may not help the poor directly, are necessary for future development. Given the supply of external funds from Arab brothers, the YARG therefore would be foolish not to embark on a plan of infrastructure development. Also, although it is administratively feasible for the country

to complete infrastructure projects by using foreign contractors, the country is not equipped administratively or technically to handle equally large capital budgets in the health, education and agriculture sectors. Investments in these sectors go well beyond simple capital projects and require heavy human resource input as well as large recurrent costs for salaries and operating costs. Relatively large inputs of technical assistance are needed in these sectors in order to make large capital transfers productive.

Even given the relatively heavy emphasis on urban infrastructure, the Plan does address rural development directly in several sectors--roads, water supply, agriculture, rural electrification, integrated rural development, etc. In reviewing the Plan, one can identify \$1.3 billion of projects which should impact on the rural poor directly or, more than one-third of the total Five Year Plan budget and more than 60% of the identified projects. It can be expected that most of the unidentified plan projects (27% of the Plan) will benefit the rural sector since most of the anticipated funding for those projects will be from local sources. Thus, it can be expected that the Plan will have a significant effect on the rural areas of the country. The country is at a very early stage of development and the accomplishment of this Plan's infrastructure goals should lay the groundwork for future emphasis on basic human needs.

4. Opportunities for Donors

For a prospective partner in its development efforts, Yemen presents the situation of being almost in a predevelopment status. Even the limited level of physical, administrative and human infrastructure which already existed in many emerging nations two decades ago does not yet exist in Yemen. The easiest of this triad of constraints to address, physical infrastructure, is the one which has received the most attention to date. Efforts

in institution building and manpower development lag far behind, partially because assistance in these areas is difficult for Yemen's major donors, the Arab oil states, to provide and partially because these problems are particularly hard to address, let alone overcome. Many YARG agencies, under heavy pressure to implement infrastructure plans, are primarily interested in turn-key projects and are reluctant to engage in institution building projects with a longer term payoff. Other agencies, although willing to address the problem, often do not have an adequate base to commence institution building in a meaningful way. With regard to manpower development, not only is the overall supply of raw material extremely limited, but many government ministries would virtually cease operating if existing staff were sent off for further training in significant numbers. Thus, while the opportunities in these areas are immense, exploiting them effectively takes more than a usual amount of innovation, imagination and persistence.

A brighter note is that Yemeni tradition and YARG policy to decentralize the development process present opportunities for donor activities to have a direct impact on Yemen's rural population even in the absence of effective central government institutions. Nonetheless, while these opportunities exist, the problems of institution building and human resource development must be dealt with if the momentum of local development is to accelerate.

H. Other Donor Assistance

Reliable statistics on other donor inputs to Yemen are not available, partly due to the largely unaccountable input from Saudi Arabia, but also because of deficiencies in gathering data from donors. The Central Planning Organization (CPO) frankly admits that it does not know how much foreign aid

the country receives. The World Bank figures for foreign loans and grants are provided below. It estimates that more than half of the total aid received has been disbursed in the last three years.

Estimated Capital Flows (\$ Million)

	<u>1973/4</u>	<u>1974/5</u>	<u>1975/6</u>	<u>1976/7</u>	<u>Cum. until June '77</u>
Official Grants	33	93	114	104	420
Official Loans, Net	29	33	44	42	290
(A) Disbursements	(32)	(37)	(47)	(46)	(330)
(B) Repayments	(3)	(4)	(4)	(4)	(40)
Total Official Capital	62	126	158	146	710

The major unknown is the assistance from Saudi Arabia. While specific project assistance from Saudi Arabia can be accounted for, a large portion of their assistance is provided informally in response to the requirements of the overall political situation.

As a group, the Arab states are Yemen's largest donors and provide the bulk of the capital assistance funds. Following in magnitude of assistance are the IBRD and the UN agencies. The IBRD appears to be placing increased emphasis on technical assistance in designing its loan programs. UNDP programs have been heavily impacted by financial constraints. Britain, Germany and the Netherlands maintain fairly traditional bilateral technical assistance programs at somewhat lower levels than now projected for the United States.

While there appears to be little out and out duplication of effort on the part of donors, formal donor coordination is slight and needs to be improved significantly. At present, most coordination is done on an informal

basis between specific agencies. (An example is the current coordination and cooperation between IBRD and AID, not only on current IBRD education investments but also on IBRD future plans in that sector.) However, the magnitude of assistance flows argues for a more vigorous central coordinating role on the part of UNDP and/or IBRD. The YARG must also play a stronger role than it has in the past. There are some encouraging recent developments. IBRD plans to set up with the Ministry of Agriculture a formal sector-wide coordinating system. The CPO, too, has in recent months placed greater emphasis on its overall coordination responsibilities. USAID's role will be to continue to encourage the YARG and multilateral donors to establish effective coordinating mechanisms. Our use of the collaborative mode of assistance is also expected to enhance our ability to cooperate more closely with the YARG and with other donors.

III. U.S. INTERESTS AND STRATEGY OPTIONS

A. Interests

Political interests of the United States in Yemen have increased considerably over the past year as the political stability of this area of the world has come into increasing question. Since the resumption of diplomatic relations in 1972, the U.S. presence in Yemen has been steadily enlarging and is thought to have had an important effect in moderating Soviet and radical Arab influence in the YAR specifically and in the Arabian Peninsula at large, the latter an area of major U.S. political and economic interest. Moreover, given its geographic relationship to the troubled Horn of Africa and Marxist South Yemen, the YAR's political relevance may further increase in the months and years to come. A prosperous and relatively egalitarian free enterprise economy in the

YAR is an objective to be sought. Finally, an extensive exporter of labor to Saudi Arabia, the YAR is of considerable importance to the Saudi economy. Broad-based developmental progress in Yemen is seen, therefore, not only as a humanitarian imperative but also as of political and economic importance to the Peninsula at large.

The United States has growing commercial interests as well. Yemen's rapidly expanding market offers a substantial opportunity for U.S. business to build on its already considerable investment and trade in the Middle East.

Our interest in Yemeni development per se is more important still. Starting from near-medieval status in 1962, it is conceivable that Yemen could become a modern, prosperous nation within little more than a generation. Associating the United States with this prospect in a significant way can contribute importantly to our long range interests in this area of the world.

B. Strategy Options

Three strategy options have been considered. The first of these, a program devoted to planning, financing and implementation of highly visible capital projects, would probably be best understood and appreciated by the present military leadership and many civilians as well. To serve longer term development needs it could be combined with an extensive and flexible training (scholarship) program. This kind of strategy would be reasonably supportive of U.S. interests, albeit mainly short term political ones, and could be implemented at fairly substantial financial levels with limited official American presence. However, other aid donors, such as Saudi Arabia and the Gulf States, are able to provide capital assistance, and with Yemen entering a critical institution-building period, we do not think a capital projects emphasis con-

stitutes an advisable development strategy at this point in time. It would be more appropriate should short term political interests increase markedly.

Secondly, AID could also take a more direct extensive approach to satisfaction of basic human needs. These could be addressed by a series of action-oriented resource transfer programs, including PL 480, medical assistance via voluntary organizations, extensive well-drilling and similar activities. This type of program, too, could be complemented by a large scholarship program. It would have the effect, however, of bypassing the institution-building phase and the resource transfer program would be a bearcat to administer under local political conditions and AID procedures.

The strategy we propose is a more accelerated approach to building Yemen's human resource base and its capacity for planning and implementation--at both central and local levels--of development programs which will have equitable and beneficial impact. This strategy is intended to quicken the pace with which the YARG comes to grip with long term human and natural resource problems and opportunities. In view of the unusual amounts of initiative and resources existing at the local level, it also seeks to encourage their more effective application to rural needs. Modest amounts of capital assistance would be used, in conjunction with other donors, to encourage greater attention to the needs of smaller communities. This kind of program is difficult to administer and is less easily understood by Yemenis than the other strategies, but it should ultimately have the greatest positive effect on Yemen's future. If political events dictate, a larger capital component could be added without modifying the nature of the basic program.

IV. USAID DEVELOPMENT STRATEGY

A. Recapitulation

Before elaborating the proposed strategy, it is worth reiterating from the previous section a few salient points on which this strategy is based.

- Remittance flows will continue and probably grow somewhat overall; cost and availability of labor will continue to be closely related to Saudi conditions. Access to migration opportunities will remain fairly widely distributed.

- Most remittance income, including its ripple effects, will flow into private hands; central government will continue to have difficulty increasing its share of GNP and covering recurrent expenditures.

- The impact of remittance income on individual quality of life components has differed; food availability and housing have improved, but health and education remain at low levels.

- Private enterprise and, increasingly, local institutions are alive and growing in Yemen.

- Agriculture will remain the basic production sector of the domestic economy, barring hoped-for but not highly probable mineral reserves. Soil and water resources are limited and present economic trends put increasing pressure on them.

- Because of its lack of natural resources, improvements in Yemen's human resources will continue to be the country's key to economic and social development.

- The government will continue to emphasize infrastructure development, favoring urban projects, primary roads and ports.

- Yemen's development will be constrained by lack of technical capacity to manage projects reflecting the country's weak institutional base.

B. Considerations and Criteria

Within the proposed strategy option, the discussion of the economic and social setting in Part II also suggests certain emphases.

- Public/private. The vigor of the private sector and the fact that it will continue to receive the major share of GNP suggests to us that AID's assistance be designed to stimulate and expand its capacity for meeting basic human needs. Since our assistance will be performed mainly to the public sector, it should attempt to strengthen those public services which support the private sector, and should also be designed to encourage the minimum public involvement necessary to ensure that the country's economic resources are developed and are applied to fulfillment of basic human needs.

- Central/local. Resources are increasingly available at the local level and there is an encouraging amount of initiative at that level as well. We think this situation has considerable potential for accurately identifying and fulfilling very basic needs. More research and experience are necessary, but our present view is that our assistance should emphasize development of local institutions, including new kinds of cost-sharing arrangements, new kinds of service activities (including education and health), and development of local human resource capacity to support these institutional arrangements. In general, we should provide capital resources only in the context of catalyzing local initiative, and our support for related central institutions should be designed so as not to usurp such initiative.

- Urban/rural. Clearly, the people who live in the rural areas have less physical access to services. Notwithstanding, except for construction of regional roads, most infrastructural development in the Plan will occur first in urban centers. Our program and projects, on the other hand, should be designed

and implemented with a definite bias toward people who live in small rural communities and market towns.

- Short term/long term. The strategy we propose is, generally speaking, long range. However, some aspects of the country situation call for different approaches. For example, the primary education system, a fairly long term development program, is thought to be a major factor in increasing migration-related prosperity and to more intelligent use of resources to improve quality of life. Skills training and vocational training may be a shorter term option to increasing the remittance flow. But what of the many who have not had, and will not have a formal education? Their numbers and their potential lead us to the conclusion that basic non-formal education should receive emphasis while the formal system is building. Another aspect of the short term/long range consideration is to realize that certain very long term objectives can only be achieved by beginning now to lay a technical or human resource base. Restoration of natural resources is such an objective.

- Capital/labor. It should be clear that employment generation should not be an objective of our program. Labor costs and the shortage of labor, in fact, may justify special training programs to enable less-skilled Yemenis to use specific kinds of equipment which multiply the productivity of their labor. On the other hand, imported technology should not be so complicated that it cannot be indigenously operated and maintained. Care must be taken also not to mechanize out of economic range, jobs which provide a means for entry of women into the modern work force.

C. Goals

The proposed AID strategy for the foreseeable future is summarized in the following long term program goals:

Goal 1: Expand equitable access to economic and social opportunities through human resources development.

Since the country is so severely lacking in any natural resources, the development of its human resources becomes the country's only option for continuing economic and social growth. Based on our analysis of the present situation and of Yemen's long term potential, we have concluded that human resource development should be the backbone of AID's program. Broad-based, basic education is the fundamental means through which economic opportunity can be converted to prosperity and prosperity into fulfillment of human needs (Indeed, education is itself one of these needs.) Better educated males will have increased earning power in Yemen and abroad, and can make more intelligent use of the resulting resources. Remunerative employment opportunities for women will be more limited, but still significant and growing rapidly. The capacity to translate new-found prosperity into improved social conditions is equally important, and can also be increased by basic education. The quality of family life, including maternal health and child care and early learning depends mainly on women. Basic education for women thus provides a major leverage point.

Goal 2: Restore and increase the productivity of natural resources.

The basic rationale for this goal is that some 800,000 or 90% of Yemen's families still depend in great part on agriculture for a living, and among these are some of the poorest people in the country. Even in the long term, the probability is that agriculture will still be the major sector of primary production. At the same time, the balance between people, land and water is precarious and deteriorating. Conservation and restoration therefore need early attention. AID's contribution to this broad goal must be in the context of concern for the welfare of the small farmer.

Goal 3: Increase the availability of and equitable access to services at the local level.

This goal focuses on the development of the rural sector. Over 85% of the people live in this sector and they are almost universally lacking in services. The most significant of these, including water, health and physical access to the outside world will be addressed under this goal. The local development authorities provide a unique opportunity for us to combine our technical assistance with local organizations which are genuinely interested in development. As for the foreseeable future the main impetus and resources for development will originate at the local level, development of local institutions and the capacity for the rural people to provide their own services must be a high priority. It would appear at present that the most progress can be made in primary health care delivery, agriculture support services, and low level infrastructure in agriculture water supply and roads. However, if we are to play an effective role in this area we will have to dramatically increase our knowledge of life in rural Yemen.

Goal 4: Expand YARG capability to direct an accelerated flow of foreign and domestic resources into development programs and projects.

As has been made clear, indigenous capacity for policy-making, planning and management are understandably thin at this stage of Yemen's development. In sectors where we plan more extensive programs, i.e., education and agricultural development, we have vehicles for providing support for these management functions in the short term. In other sectors, our approach is based mainly on training programs. As the YARG continues to build its institutional framework, we plan to make these programs more closely focused on staff development for key institutions, existing or planned. Initially, training grants would be an appropriate means of support, but we can visualize the desirability of a more institution-building approach.

D. Objectives and Programs

In working toward the foregoing goals, current and projected AID projects during this CDSS period will meet the following major and supportive objectives.

1. Major Objectives

- (a) Institutional development of the basic education system (primary, secondary and non-formal) to provide the skills needed for fulfillment of basic human needs and productive utilization of increased personal income.

The objective of the education program is the development and expansion of institutions required for basic education. These institutions are needed to provide literacy, mathematical understanding and skills, basic scientific knowledge (including health, nutrition and sanitation), and work skills. The primary and non-formal education systems are viewed, if efficiently designed, as the least cost means of achieving broad-based, fundamental improvement in the quality of Yemen's human resources.

The Five Year Plan projects that total number of primary students in Yemen will grow from 252,500 in 1975/76 to 426,900 in 1980/81. The number of entering students is expected to grow 124%; boys by 9% and girls by 254%. There are constraints at nearly every point in the primary school system. A number of schools have been built, although coverage by geographic and sex criteria is unknown and probably inadequate. Of those built, many are not yet operational due to the shortage of teachers. Those schools with teachers are predominantly staffed by primary school drop-outs. Six modern Primary Teacher Training Institutes, financed by IBRD, are in existence or being constructed. Although work has been done by UNESCO on some components of the related teaching and curriculum systems, substantially more technical assistance is required to generate progress.

The primary education component of the program will focus on in-service and pre-service teacher education and development of a capacity for training primary teacher trainers. Support will also be provided to a nascent curriculum development program, including teaching materials which are an essential component of the teaching/learning process. To develop the long range competence of the primary education system as a whole, the Sana'a University College of Education will be strengthened as will the Faculty of Science, especially as it relates to the training of science teachers. In addition, we plan to initiate experimental programs at the local level to test and generate receptivity to primary education for girls, to devise forms of local organization and support for primary education and to develop appropriately designed cost-effective facilities.

The other major program component will be non-formal education. Given Yemen's widely scattered rural population and the limited resources available to the government to reach them, particular emphasis will be given to development of mass-media supported education outreach programs. The program will address a wide range of the most basic educational requirements and will include basic vocational, agricultural and scientific skills training so that workers can maximize their income at home and their on-the-job training opportunities in Saudi Arabia. Given the particularly low level of education among women, we will support and improve existing programs for young girls not attending primary school and for illiterate women for whom classes are presently conducted in homes. Vehicles to be used for dissemination of non-formal education include radio and television--possibly supported by satellite technology--as well as less sophisticated techniques such as tape cassettes. Extensive use will be made of existing and planned District and Vocational Training Centers. While our initial support will be through technical assistance, it may be appropriate

to include the provision of hardware as the program develops.

Agricultural education, at any level, is not existent in Yemen. As part of a Title XII program (which will also address the next objective), AID will also support development in this area, initially at the secondary level.

- (b) Establishment of a broad-based, nationally coordinated program of integrated agriculture development.

While agriculture is the most important sector of the domestic economy, the ability of the YARG to lead and support agricultural development efforts is practically nil. Current donor activities are of necessity largely self-contained and present little opportunity for replication. The proposed program in agriculture, as a result of this constraint, is based on the establishment of a long term Title XII program which, in turn, will focus on development of institutions required to provide sector-wide support to agriculture and, especially, to small farmers. Particular emphasis will be placed on developing a coordinated research, extension, education system--a subject beginning to see quickening donor and YARG interest.

Although precise definition of our approach and objectives must await final design efforts it is possible to foresee some of the areas in which emphasis will be placed.

1) Education and Extension

As mentioned in the previous section, agricultural education is non-existent in Yemen. One result is that, except within the confines of donor-implemented area development projects, provision of support services to farmers through extension programs is in turn almost non-existent. The first training institution for middle level extension workers and technicians is now being constructed with IBRD support at Ibb, the heart of Yemen's major agricul-

ture region. AID technical assistance is planned for the development of this school as well as for a future technical school in the other main ecological zone, the Tihama, where the greatest future production potential lies. (The IBRD will finance capital costs of this second school.) Assistance in the initiation of higher level education may also prove appropriate in the future. While middle level manpower is being trained, work will begin on establishing the ground work for development of a national extension system.

2) Planning and Research

As mentioned above, the YARG is not currently able to provide effective leadership and coordination of (nor participate in) agricultural development efforts. If future development assistance is to be effective and expanded, it must be based on sound planning and implemented in a rational systematic manner. The need is particularly acute for the expensive basic and adaptive research required for long term growth of the sector.

3) Production and Productivity

The YARG and AID share the same view on the priority of programs needed to increase production and productivity in the short term. Development of a capacity for seed improvement and multiplication is one and is also an area in which the U.S. has significant expertise. Farm water management is an area requiring immediate attention given scarce water resources. A third important area is soil fertility. Among other factors, Yemen's widely varying environmental conditions require careful study of the methodologies for fertilizer application.

4) Cooperatives and Credit

An agricultural cooperative movement, usually associated with LDAs, is emerging spontaneously. These developments will be studied carefully

and assistance will be provided as potential and needs become more apparent. In this area, as well as others, activities will be designed to support local initiatives.

5) Environmental Preservation

As mentioned earlier, Yemen's only known natural resources, land and water, are in imminent danger. Water tables are falling rapidly and abandonment of terraced farms developed over millennia is creating the potential for erosion on a massive scale. Population pressures have put further pressure on the resource base and have virtually denuded the country of trees. A large-scale program of conservation and afforestation is required, preceded by careful analysis and planning which can be supported by AID.

Our program may appear to be a fairly traditional approach to agricultural development, and indeed it is. However, it must be recognized that agronomic and economic research needs and institution building must be addressed before development projects with a more direct impact on the poor attempted. Furthermore, the type of flexible, responsive long term commitment made possible by the use of the Title XII mechanism will enable the program to adapt to changes in the pace of agriculture development and, at the same time, hasten the rate of change.

- (c) Development of the potential for increased local level involvement in national development and development of public and private sector institutions required in support of local level initiatives.

Those components of our country program related to this objective include perhaps our most innovative ones in attempting to provide assistance related to the unique circumstances of Yemen. As we have said, the phenomenon of locally initiated development provides the opportunity of improving the quality

of life in rural areas without heavy reliance on central government institutions. While AID and other donors have provided assistance within the existing framework of local institutions, we are proposing to interact with and improve the effectiveness of the system itself, and lay the groundwork for government support as YARG institutions expand their abilities.

There is nothing at all uncertain about some rural needs. A convenient source of potable water is one, roads to provide access to markets and services is another, and provision of the whole range of basic health services is critical. The AID program will help to expand provision of these and other services and facilities to rural areas. However, its primary purpose will not be simply the transfer of resources. In different ways our projects will develop better technology, encourage and test various modes of local cooperation and enterprise, and determine the minimum necessary intervention and support through central government organizations and budget.

Initially, our rural development effort will be concentrated on assisting Local Development Associations (LDAs) establish and construct small scale rural water systems, roads, agricultural infrastructure and to support services such as primary health care systems, basic education and production cooperatives. In doing so, we will be improving simultaneously the planning, management and implementation capacities of LDAs which, in turn, will allow an increase in the already substantial amount of resources that rural people invest in locally initiated development activities. After we have made strides in developing local infrastructure, we visualize a shift in emphasis back to regional and central government institutions which plan and coordinate broad-based action programs and which supply leadership and technical capacity to local organizations. In the implementation of programs in this area, intensive cooperation among AID, Peace Corps and PVOs will be necessary.

2. Supporting Objectives

Full achievement of our long term goals will require additional work supportive of the above objectives as is outlined in this section. AID activities in these areas will be either included in projects addressing the major objectives or be undertaken as specific activities. In both cases they will be integrally tied to the major program areas outlined above.

- (a) Expansion of economic and social analysis of the development challenge in Yemen, primarily in the rural and agricultural sectors.

Given Yemen's recent entry into the modern world, the amount of economic and social analysis available for the planning and implementation of development programs, although growing, is still insufficient. We expect to build knowledge of socio-economic conditions and dynamics in two general ways. First, wherever possible, the mechanisms for producing required analysis and data will be built into all of our projects. Secondly, we also plan to support research and analysis efforts in specific areas relating to our program goals which may not directly relate to individual projects.

There is an increasing amount of research and analysis going on, some of which we have sponsored. However, we are now at the stage where the research needs to be more carefully directed toward problems in which AID is specifically interested. For example, the structural changes in the economic aspects of rural life as a result of remittance flows have not been analyzed in sufficient detail. The same holds true for the long term impact of remittances on the agriculture sector and on income distribution and wealth. Efforts to define poverty in Yemen have been less than totally adequate due to our lack of knowledge about the rural sector. The changing role of women needs continuing study. Complete and reliable information on important agricultural questions

with the development of an in-country training capacity in this field.

In a shorter time perspective, there is an immediate need to plan and implement projects for which outside capital is readily available. Many of the projects in the Plan are as yet no more than ideas and, since many of these require construction, feasibility and design work are essential. The YARG's capacity to handle the mountain of work involved is very limited, thus constraining the flow of available resources and the ability to properly utilize those actually provided. Thus, in addition to training programs, we are proposing consideration of assistance with more immediate impact. Discussions are underway with the YARG on the possibility of technical assistance in the preparation of feasibility studies and initial design of investment projects both through grant funded programs and reimbursable technical assistance. Assistance could be expanded to include advisory services to analyze policy problems and present alternatives for YARG consideration.

E. Implementation Strategy

The implementation strategy which we propose to follow is governed primarily by Yemen's early stage of human resource and institutional development but is also affected by the high cost of operating in Yemen. The principal factors taken into account are the lack of capacity for setting priorities and for detailed project planning, the lack of pre-existing institutional infrastructure, and the sharp drop-off in human resource capability below the Division Head level in YARG organizations.

The collaborative assistance mode is being used for implementation of our major sector programs in education and agriculture. This mechanism provides a means of close and continuous dialogue between U.S. professionals and the YARG regarding needs, priorities and program emphasis which will result in sounder

and more realistic planning for the ministries generally and for AID-financed assistance flows specifically. Participation in early planning should also enable collaborating U.S. institutions to identify resources much further in advance of need and to adjust better the time of their application to the readiness of the receiving institution. Pilot programs, preliminary institutional planning and other exploratory activities can be undertaken flexibly and expeditiously, accomplishing a necessary purpose but avoiding premature commitment of large amounts of resources. Changing conditions can be reflected in our programs without being adversely affected by the long lead times or the inflexibility associated with standard AID procedures for starting, adjusting or terminating programs. The collaborative mode also provides a means for establishing a long term relationship between the YARG and U.S. institutions, which should enhance our understanding of Yemen and the quality of professional expertise brought to bear on Yemen's problems. Thus, while the collaborative mode obviously has advantages elsewhere, it seems particularly appropriate in the Yemen context.

Implementing programs in the rural areas of Yemen requires not only the capacity for responding to existing conditions suggested above. It also requires institutions which can provide personnel able to cope with difficult cultural and living conditions. Based on experience thus far, it appears that the Operating Program Grant mechanism to support Private Voluntary Organizations is well suited to this purpose. By close cooperation and judicious provision of planning assistance where necessary, PVO activities can be integral parts of a coherent country program.

For similar reasons, and also because of the lack of middle level Yemeni management and technical people, Peace Corps Volunteers are expected to be an integral element of many projects. PCVs are already fulfilling an absolutely

essential role in small water projects, and International Voluntary Services volunteers are invaluable members of the sorghum research effort. Both USAID and Peace Corps programs will benefit from expanded areas of close cooperation related especially to the first three program goals.

The nature of collaboration described above with U.S. universities, PVOs and the Peace Corps will require vastly strengthened mutual planning and coordination. For the most part, this can be accomplished at country level, and at little additional cost. The size of resource flows possible under the collaborative assistance programs with U.S. universities will also require high level and substantive participation in overall program planning and evaluation by AID/W, the universities and BIFAD. The time and staff (and, consequently, expenditures) required by AID for detailed planning, field support and administration should be significantly lower, however.

F. Type and Composition of AID Assistance

For the foreseeable future, the bulk of AID assistance should be technical assistance, including significant amounts of training. We think the U.S. is one of the best sources of technical assistance, and such a program is highly complementary to and supportive of capital inputs from IBRD and the Arab nations. Technical assistance objectives need to be supported by appropriate amounts of grant-funded commodity assistance, matching grants for rural development projects, and in the case of health and nutrition projects, PL 480 Title II commodities. Some local cost funding also will be needed during the immediate future, mainly to ensure that new institutions are soundly launched.

Over the next few years as technical assistance programs begin to produce tangible results, we propose to provide loan-financed capital inputs for local level infrastructure, including, for example, tertiary roads linking villages

to the primary and secondary road network now under construction and small town water systems. Another area, which would require careful study prior to serious consideration, would be agricultural marketing infrastructure to enhance the competitive position of small producers. Although expansion of capital inputs will have to be carefully weighed in light of alternative opportunities presented by the technical assistance programs, we feel that a modest amount of capital assistance can be included within our program level over the current five year planning period. Should program levels be increased as a result of changes in the political situation, we expect that the increase could be effectively accomplished only through expansion of capital assistance.

All current assistance is grant funded, with limited YARG input, for several reasons. First, despite increasing remittances, the financial position of the central government is still precarious. As explained before, the YARG feels unable--with considerable justification--that it cannot at present enlarge significantly its share of remittance-related income. Also, we expect the recurrent costs associated with large capital investments to absorb normal growth in government revenue. While we and other donors wish that the central government would be in a comfortable financial position, the fact is that it is not. We also think grant funding is more appropriate for technical assistance.

Most assistance to Yemen, including AID's, has heretofore required little if any YARG contribution. This situation is a result of the appallingly poor condition of the country when assistance programs began. With the exception of the Dutch and, more recently, AID, no donor has even begun to adjust to the relatively more affluent condition of the people and the government. We think the YARG should now begin to increase its share of program costs. For one reason, despite its precarious balance, the government budget is far larger than before

and is growing. More fundamentally, we regard government budget support for development projects--especially those such as schools, research stations, etc.-- as an essential element in building institutions viable over the long term. We therefore intend to design our projects on the principle that the YARG will begin at the outset to fund through its regular budget all, or nearly all, project costs of a recurring nature. We think this strategy will result in an increased YARG contribution and commitment to the overall program. More important, it will have significant institution-building impact and will also tend to enlarge the proportion of YARG budget expenditures allocated to development programs.

YARG support for AID operating expenses is not a reasonable objective for the foreseeable future, if ever. The proposal that the YARG do so is based on a misunderstanding of the central government's financial position. The proposal is also politically infeasible, since no other donor receives this type of support and all of them have significantly lower overhead than AID. For the same reasons we cannot expect the YARG to reimburse the U.S. for technical assistance programs except possibly for an occasional one which falls well beyond the scope of our strategy.

The YARG's debt burden is at present negligible and will be for some years to come. We foresee no difficulty in obtaining YARG concurrence in loan funding for capital projects and recommend that they be carried out only on that basis.

G. Results

From the re-establishment of AID programs until just recently, our programs, with the exception of training and small scale agriculture research efforts begun a couple of years ago, focused on assistance with a more immediate impact. This program benefitted both rural and urban populations considerably,

particularly in provision of water. Also, increasing numbers of returned participants represent significant improvement in the human resource base. There was little impact, however, on basic institutional development; either central or local.

Our current strategy and programs have developed over the past two years and are just beginning to reach the implementation stage. While over the next five years we expect these programs will have improved the quality of life of a substantial number of people, the most important accomplishments will be in laying the necessary groundwork for more substantial and more direct assistance to the poor on the part of ourselves, YARG and other donors.

In education, we hope to achieve an increase in the quality and quantity of teachers, a marked improvement in the effectiveness of educational institutions in meeting the needs of the rural population and establishment of the institutional capacity for nation-wide non-formal education.

In agriculture we expect an increased flow of benefits from our continuing research efforts and expansion of recently initiated outreach programs. The main progress, however, will have been made in the establishment and strengthening of agricultural support institutions (research, training, extension) and in the enhanced capacity of the Ministry of Agriculture to plan and coordinate the complex task of agricultural development.

Programs focusing on local development initiatives will have the largest number of direct beneficiaries. Yet again, the key product will be establishment of a base for far larger efforts by all parties concerned.

By 1985, as a result of the number of returned participants and our work with central level institutions, the YARG will be able to better define its development strategies and plan and implement its development programs. Results in this area should be apparent at a fairly early point due to training programs already in progress.

In summary, over the forthcoming CDSS period we anticipate making a substantial contribution toward advancing Yemen's status from one of essentially predevelopment to one where donor and YARG efforts can coalesce into an effective instrument for fulfillment of basic human needs.

V. PROPOSED ASSISTANCE PLANNING LEVELS

A. Quantification and Rationale

Our Proposed Assistance Planning Levels (PAPL) are tabularized in Annex I. As our program within the four established goals and within sectors interrelate with each other, we have broken out the numbers in two ways. Table I provides a traditional break-out by sector and Table II provides a break-out by strategy goals. This was done to provide a clearer picture of how our strategy will be quantitatively implemented.

We are not suggesting a change from the established level as we believe the funding required to implement our planned technical assistance program at a rate which is consonant with the limited absorptive capacity of the YARG can be accommodated within the level. Also, we expect our program to be supported increasingly by YARG contributions. However, implementation of the capital assistance portion of our program in a timely manner can only be achieved by reaching the established ceiling earlier than 1985. A dramatic change in the political situation--a possibility less than remote--might dictate an increase in the levels. In such an eventuality, as we have said, any increases would be best utilized in capital assistance areas (in which the YARG continues to express an interest in our involvement). Possible areas include roads, urban utilities and power distribution.

Loan assistance appears in FY 83. By that time the initial investment requirements for establishment of our technical assistance programs will have

peaked, and progress made in the area of local initiatives should allow follow-on capital assistance in, for example, rural roads. Another possible area for basic health needs-related capital assistance is provision of water for market towns. This loan assistance could begin at an earlier date.

There is a marked increase between the FY 80 control level of \$14 million and the \$25 million proposed for FY 81 (although a much smaller increase from the \$20.5 million for FY 80 proposed in last year's CDSS). We believe this increase can be managed, as by FY 81 the initial shake down period of our collaborative assistance programs in education and agriculture will have been completed and the rate of implementation should be able to increase greatly. Since we are now in the final design stage of a revised program focus, funding for on-going activities does not play a significant role in the proposed levels.

B. Staff Implications and Operating Expenses

Operating costs in Yemen are related to price levels elsewhere in the Peninsula and can be expected to remain high. These costs can be held to a minimum by designing projects and implementing them so as to limit USAID support and involvement, and by limiting review and oversight and the related response costs to the minimum essential. We have been following certain administrative criteria in designing projects.

- AID-financed inputs should be provided through contractors or PVOs. In addition to standard contract costs this includes commodities, participants, local employees and everything else including general services support to contract employees. While this is not the case with current projects, all upcoming activities with minor exceptions are designed to accomplish this.

- Programs should be designed to limit USAID participation (although not final responsibility) in detailed project design. Title XII provides a means

for accomplishing this. A similar arrangement is being used in the education/human resources sector.

- Projects should be designed at levels of input that can minimize documentation, paperwork and meeting time. Relatively small projects, such as we now have in agricultural research, although they look neat to the outsider, are costly of USAID and AID/W time.

The higher levels of technical assistance proposed can be administered effectively by a staff of 30 to 34 direct-hire Americans. (Our current USDH ceiling is 31.) The main reason for the modest increase in staff compared to program increase is the use of "collaborative style" procedures which call for increased project management responsibilities on the part of contractors, and the switch of support responsibilities from the Mission to contractors. We believe an increase in the FSN staff will be required. Part of the increase would allow further recruitment of local secretaries and administrative/support personnel. This will take time, however, as qualified local staff are extremely difficult to recruit and retain. Also, as the pool of professional manpower increases, we plan to recruit Yemeni understudies for USDH professionals. Orderly accession and development of FSN staff is, unfortunately, not possible given the games presently being played with ceilings and PSC limitations.

In the long run, if our FSN recruitment and training program is successful, USDH staff requirements for the program levels proposed could be decreased by 6 to 8 positions. Given the cost of maintaining USDH staff, the impact on operating expenses would be considerable.

Although we are making and will continue to make assiduous efforts to reduce operating expenses, they will remain high in Yemen. Nonetheless, the ratio of operating expenses to program levels will improve dramatically in the near

future. In FY 79, operating expenses represent about 40% of the program level. By FY 81, using our proposed funding level, they should be reduced to slightly over 20% of the program level, with the ratio continuing to improve over the next few years.

TABLE I
 PAPL Amounts by Appropriation Account
 (\$000)

	<u>FY 81</u>	<u>FY 82</u>	<u>FY 83</u>	<u>FY 84</u>	<u>FY 85</u>	<u>Totals</u>
Agriculture Sector:	10,000	15,500	15,500	22,000	14,500	77,500
Project Grants -	10,000	15,500	15,500	10,000	14,500	65,500
Institutional Dev.	4,000	6,000	6,500	3,000	5,000	24,500
Research	2,000	5,000	3,000	3,000	2,000	15,000
Training	1,000	1,500	2,000	1,000	3,000	8,500
Production	3,000	3,000	4,000	3,000	4,500	17,500
Loans -						
Rural Infrastructure				12,000		12,000
Health Sector:	7,500	-	12,500	3,000	15,000	38,000
Project Grants -	7,500	-	2,500	3,000	-	13,000
Institutional Dev.	2,500	-	1,000	2,000	-	5,500
Research	1,000	-	-	-	-	1,000
Training	1,500	-	1,500	500	-	3,500
Infrastructure	2,500	-	-	500	-	3,000
Loans -						
Rural Infrastructure			10,000		15,000	25,000
E/HR Sector:	7,500	14,500	7,000	10,000	5,500	44,500
Project Grants - ^{1/}	7,500	14,500	7,000	10,000	5,500	44,500
Institutional Dev.	5,000	7,000	4,000	5,500	3,500	25,000
Research	1,000	1,000	500	500	-	3,000
Training	1,500	6,500	2,500	4,000	2,000	16,500
TOTAL	25,000	30,000	35,000	35,000	35,000	160,000
(Grant)	(25,000)	(30,000)	(25,000)	(23,000)	(20,000)	(123,000)
(Loan)			(10,000)	(12,000)	(15,000)	(37,000)

^{1/} Includes training programs for central government officials.

TABLE II

PAPL Amounts by Strategy Goals
(\$000)

	<u>FY 81</u>	<u>FY 82</u>	<u>FY 83</u>	<u>FY 84</u>	<u>FY 85</u>	<u>Total</u>
Goal 1 Human Resources	6,000	13,000	9,000	10,000	5,000	43,000
Goal 2 Natural Resources	5,000	7,500	6,000	5,000	5,000	28,500
Goal 3 Local Development (Grant)	11,000	6,000	17,000	17,000	22,000	73,000
(Loan)	(11,000)	(6,000)	(7,000)	(5,000)	(7,000)	(36,000)
Goal 4 Development Planning and Management	3,000	3,500	3,000	3,000	3,000	15,500
FY TOTAL	25,000	30,000	35,000	35,000	35,000	160,000

COUNTRY DATA - YEMEN ARAB REPUBLIC

<u>AREA</u>	<u>POPULATION</u>	<u>DENSITY</u>
About 195,000 sq. km.	5.4 million (1978) Rate of growth: 2-2.2%	About 28 per sq. km.

POPULATION CHARACTERISTICS

Crude birth rate: 46 per 1,000 (est.)
 Infant mortality: 150 per 1,000 live births (est.)
 Life expectancy: About 37 years (est.)

EDUCATION (1976)

Literacy rate: About 13 percent
 Primary school enrollment: 29 percent

HEALTH

Population per physician (1975)
 : 17,700 (est.)
 Population per hospital bed
 (1974) : 1,600 (est.)
 Widespread endemic and epidemic
 diseases, particularly water-
 borne diseases (bilharzia,
 worm diseases)

GNP PER CAPITA (WORLD BANK METHODOLOGY)

	<u>US\$ Million</u>	<u>Per Capita US\$</u>
GNP 1976/77 (current prices)	2,444	392*

GROSS DOMESTIC PRODUCT (US\$ MILLION - CONSTANT 1975/6 PRICES)

	<u>1973/74</u>	<u>1974/75</u>	<u>1975/76</u>	<u>1976/77</u>
Agriculture	428.3	550.1	512.3	479.2
Industry	67.7	70.8	67.1	81.7
Construction	62.5	52.2	50.4	81.3
Trade	179.8	190.5	271.3	348.4
Transportation	35.8	40.4	33.5	38.3
Finance	18.7	27.3	31.4	42.3
Housing	40.4	42.4	44.1	46.8
Government Services	96.6	114.3	113.1	132.6
Other Services	24.1	26.7	28.0	30.7
GDP	953.8	1114.6	1151.3	1281.4
Non-Agricultural GDP	525.5	564.5	638.9	802.2

<u>MONEY AND CREDIT (US\$ MILLION, END OF PERIOD)</u>	<u>June</u> <u>1975</u>	<u>June</u> <u>1976</u>	<u>June</u> <u>1977</u>	<u>June</u> <u>1978</u>
Money supply	253.8	557.6	971.2	1374.4
Currency outside banks	176.4	373.4	671.3	995.8
Quasi-money	39.5	106.8	189.9	245.3
Credit to private sector	87.5	125.7	327.6	324.5
Net claims on Government	-35.8	-90.5	-208.7	-202.6
Net foreign assets	263.5	579.4	912.5	1363.3

* 92% of difference between GDP and GNP accounted for by workers' remittances.

<u>BALANCE OF PAYMENTS (US\$ MILLION)</u>	<u>1974/5</u>	<u>1975/6</u>	<u>1976/7</u>	<u>1977/8</u>
Exports	12.8	12.3	18.6	7.1
Imports	-258.5	-382.5	-729.3	-834.4
Balance of trade	-245.6	-370.2	-711.1	-827.3
Workers' remittances (receipts)	225.1	525.2	1013.6	1340.0
Workers' remittances (payments)	-34.3	-68	-171.2	-321.4

WORKERS' REMITTANCES (RECEIPTS)

By quarter US\$ Million	1975/6 1st 94.2	1976/7 1st 234.9	1977/8 1st 334.1
	1975/6 2nd 88.3	1976/7 2nd 229.0	1977/8 2nd 338.9
	1975/6 3rd 140.3	1976/7 3rd 275.2	1977/8 3rd 316.2
	1975/6 4th 202.4	1976/7 4th 336.0	1977/8 4th 350.7

GOVERNMENT EXPENDITURES

(as a % of current expenditures)

	Actual	Actual	Actual	Estimates	
	<u>1974/5</u>	<u>1975/6</u>	<u>1976/7</u>	<u>1977/8</u>	<u>1978/9</u>
General Services	39	36	34	34	34
Defense	43	42	38	25	22
Education	6	8	8	9	12
Health	3	3	3	5	4
Public Works	2	4	6	9	9
Community and Social Services	2	2	4	5	5
Economic Services	2	3	7	11	12
Other	<u>2</u>	<u>2</u>	<u>1</u>	<u>1</u>	<u>1</u>
TOTAL	99	100	101	99	99
TOTAL (US\$ Million)	123.4	177.9	283.5	456.4	706.0

GOVERNMENT FINANCE

(US\$ Million)

	<u>1974/5</u>	<u>1975/6</u>	<u>1976/7</u>	<u>1977/8</u>	<u>1978/9</u>
Current Expenses	100.7	137.0	186.9	268.1	372.4
Current Revenues	84.2	134.4	287.3	323.6	471.3
Current Balance	-16.5	-2.6	+100.4	+55.5	+98.9
Capital Expenses	22.7	40.9	96.6	188.3	333.7
Capital Revenues	6.2	6.4	4.3	20.5	16.1
Capital Balance	-16.5	-34.5	92.3	-167.8	-317.6
Overall Balance	-33.0	-37.1	+8.1	-112.3	-218.7
Deficit as % of Budget	27%	21%	Surplus	25%	31%