

~~LIMITED OFFICIAL USE~~

# Country Development Strategy Statement

## FY 1986

## Yemen

BEST AVAILABLE



### January 1984

Agency for International Development  
Washington, D.C. 20523

~~LIMITED OFFICIAL USE~~

# LIMITED OFFICIAL USE

## TABLE OF CONTENTS

<u>ITEM</u>	<u>TOPIC</u>	<u>PAGE</u>
I.	INTRODUCTION AND SUMMARY	1
II.	MACRO-ECONOMIC UPDATE	2
III.	USAID STRATEGY	7
	A. Overview	7
	B. Population	8
	C. Basic Education and Technical Training	10
	D. Agricultural Productivity	14
	E. Water Scarcity and Utilization	16
	F. Health	19
	G. Earthquake Relief and Reconstruction	21
	H. PL-480 Title I	25
IV.	BILATERAL PRIORITIES IN THE REGIONAL CONTEXT	26
V.	RESOURCE ALLOCATION	28
	A. Budget Narrative	28
	B. Project Budget Table	29

ANNEX A: Production and Imports of Basic Food Commodities

LIMITED OFFICIAL USE

# LIMITED OFFICIAL USE

-1-

## I. INTRODUCTION AND SUMMARY

This FY 1986 CDSS updates the basic strategy for USAID outlined in the FY 1985 and previous CDSSs. For the full background to and rationale for the strategy, please review those documents.

The present statement is in three parts. The first summarizes macroeconomic events of the past year. It concludes that because of a slowdown in Arab assistance, reduced cash remittances, the Dhamar Province earthquake and a drought in 1983, the development investment objectives of the Second Five-Year Plan (SFYP) are unobtainable. The YARG budget has already been scaled back with new construction starts placed on the casualty list. While reduced budget outlays can be expected, it does not appear that YARG contributions to USAID projects will be seriously affected, although institutional development efforts may be set back as the YARG focuses more on immediate budget problems rather than longer-term objectives.

The second part examines the existing strategy in light of the past year's development and highlights policies and issues with which the program will be contending in the future. It confirms the fundamental strategy of institutional and human resource development and affirms a focus on fewer critical areas, suggesting at the same time, however, that our intention to withdraw from water policy and health sectors might need re-examination in the future.

LIMITED OFFICIAL USE

## LIMITED OFFICIAL USE

-2-

The third part assesses USAID strategy in light of the regional strategy. It concludes that USAID's priorities are essentially in conformance with those of the regional strategy, albeit with some differences in emphasis based upon Yemen-specific development needs. It suggests that more attention be paid to the urbanization process and recommends consideration be given to a specific project intervention in this area.

To carry out this strategy, USAID requests \$34.0 million in development assistance funds for FY 1986, which will follow levels of \$30.0 million in FY 1985 and \$27.5 million in FY 1984. The proposed FY 1986 level would be apportioned 50% for Agriculture, 26% for Education, 6% for Population, 12% for Health and 6% for other activities.

### II. RECENT MACROECONOMIC DEVELOPMENTS

Yemen's Second Five-Year Plan (SFYP), 1982 to 1986, was prepared in the afterglow of a decade of improvements in Yemen's socio-economic structure. From 1976 through 1981, fueled by high worker remittances and foreign assistance, Yemen's GDP grew by an average of 6% per annum. The YARG sought in the SFYP to continue this growth by stabilizing consumption expenditures, increasing local production and increasing production of crops, goods and services for export. The SFYP identified four key development problems: (1) low productivity of capital and labor, (2) negative savings, (3) a trade deficit and (4) dependence upon foreign grants/loans. The plan called for the mobilization of \$28 billion in resources, which would be composed of GDP, factor

LIMITED OFFICIAL USE

## LIMITED OFFICIAL USE

-3-

earnings from abroad (largely remittances), and foreign assistance loans and grants. Although vague as to how this would be brought about, the plan envisioned that both the public and private sectors were to have major roles in the mobilization of resources for plan implementation.

The plan outlays were divided into two parts; the investment (capital) budget and the consumption budget which included all YARG recurrent costs as well as essential imports. The total investment budget of \$6.4 billion was projected to be financed 47.2% from gross national savings, 46.1% from foreign loans, and 6.7% from other sources. Since the Government budget is consistently in deficit, the Plan projected that national savings of \$3.1 billion would be largely derived from workers' remittances, and would be channeled directly to private investment. Public investment was to be financed by foreign assistance loans totalling \$2.9 billion. Government recurrent expenditures were to be financed by revenues largely derived from customs revenues and \$1.2 billion in grant foreign aid (mainly from the Saudis).

In order to meet both investment and consumption expenditures budget requirements, the SFYP assumed worker remittances of \$5.6 billion and foreign assistance of \$4.1 billion. Most observers agree that the SFYP was, in the first instance, an unrealistic plan. Since its issuance, however, lower Arab Gulf states assistance levels, a declining

LIMITED OFFICIAL USE

## LIMITED OFFICIAL USE

-4-

flow of cash remittances into Yemen, the December 1982 earthquake and a drought in 1983 have reduced the supply of resources for Yemen's investment budget.

The SFYP called for cash remittances of \$1.1 billion per annum in order to finance both the investment and consumption budgets. World Bank projections are that demand for Yemeni labor in neighboring states will increase by 1.8% per annum through 1988. Recently-supplied Saudi estimates are that one million Yemeni workers earned \$2.4 billion in Saudi Arabia during 1983. Another estimate is that about \$400 million is earned annually by Yemeni workers in other countries. Analysts estimate that Yemeni workers remit 35% of their gross income (estimated \$2.8 billion) in cash or in-kind. In theory, therefore, the remittance level should be about \$980 million in 1983 or slightly less than targeted in the SFYP. This figure contrasts with the Central Bank estimate of \$1.2 billion in both 1982 and 1983. However, a growing part of workers' earnings is being invested outside Yemen and increasingly remittances are coming in the form of smuggled merchandise in response to increased duties and tighter controls over foreign exchange by the Central Bank. As a result, remittances will likely play a diminished role in financing development investment. Our estimate is that less than \$600 million will be remitted in cash to Yemen in 1984 in order to meet national investment and consumption requirements.

LIMITED OFFICIAL USE

## LIMITED OFFICIAL USE

-5-

Foreign assistance was estimated to total \$4.1 billion over the life of the SFYP (again, to help finance both investment and consumption). Present discussions with donors, including the IMF, Saudi Arabia, IBRD/IDA, Japan, West Germany, Netherlands and UNDP, suggest that previous estimates of annual official aid flows of more than \$1 billion were high. Saudi Arabia provided about \$55 million in project aid in 1982. Other Arab programs (the Saudi Fund, the Abu Dhabi Fund, the Kuwait Fund, the Islamic Development Bank, Iraq, United Arab Emirates, Gulf Coordination Council, etc.) probably totalled about \$300 million in project assistance. All other donors provided about \$190 million. Direct Saudi support to the YARG budget was about \$100 million. (This amount is exclusive of Saudi payments to northern tribes which likely do not exceed \$100 million.) Thus, we estimate that the YARG received about \$645 million in aid in 1982, compared with an expected \$820 million in the SFYP. There is little or no reason to believe that donor support, particularly Arab aid, will increase in the future and it may well decrease. Therefore, the YARG may have to make do with about \$1.0 billion less in economic assistance during the SFYP.

The SFYP was completed prior to the December 1982 earthquake in Dhamar. A World Bank report prepared after the disaster estimated total damage in Dhamar to be about \$2 billion, and called for a YARG reconstruction program of \$650 million. We do not know how much the

LIMITED OFFICIAL USE

## LIMITED OFFICIAL USE

-6-

YARG has been able to raise from taxes and foreign donations (in addition to economic assistance discussed previously); however, it appears as though the Government has been able to put together only about one-half of the requirements.

Yemen also suffered a drought during 1983. Again, information is incomplete; however, a recent FAO/WFP report estimates Yemen's grain gap in 1984 at 115,000 tons, with an added foreign exchange expenditure of about \$25 million during 1984 for imports. Yemen's food balance sheet is presented in Annex A.

All factors considered, Yemen's SFYP may have an investment shortfall in the neighborhood of \$4 billion. Thus, the outlook for Yemen's GDP growth is not good - a best-case estimate is that growth will be less than 4% per annum. Foreign exchange shortages will persist and the YARG will continue to have cashflow problems.

In summary, the YARG is in a difficult position, but economic collapse is unlikely. The Government will likely pursue a number of options simultaneously; i.e., attempt to increase domestic revenues, reduce budget outlays, seek additional Arab subventions to cover budget deficits and, finally, increase deficit spending. YARG expenditures for 1984 are projected to be about \$1.76 billion or some 5.8% less than the 1983 budget. Sectoral priorities have not changed appreciably in the cutback. Allocations for agriculture and the industrial and mineral sectors have been slightly increased in tune with strong YARG emphasis on production. Budgets for health, education and

LIMITED OFFICIAL USE

## LIMITED OFFICIAL USE

-7-

municipalities were reduced slightly. Agriculture has a budget of \$26 million, \$43 million is planned for education (with another \$15 million for Sanaa University) and the health sector has been allocated \$45 million. In order to bring about a reduction of 5.8%, the YARG plans, inter alia, no construction of Government offices to be initiated in 1984, except that funded by donors.

With respect to AID's somewhat more parochial interests, we do not expect the YARG's cutback in budget and diminished economic performance will have an appreciable effect on our program. YARG inputs to our projects, for the most part, are provided in salaries for counterparts, land and site preparation, support for participants' training and limited operating funds. We expect this support will continue. We do anticipate, however, some difficulty in projects which require increases in YARG staffing over a period of time (e.g., training of traditional birth attendants for the Ministry of Health). We will also likely have continued pressure to concentrate more resources in production activities (e.g., horticulture and poultry subprojects) and if we are not careful these activities may diverge from institutionalization objectives.

### III. USAID STRATEGY

A. Overview: Preparation of this CDSS has been hampered somewhat because we lack final results of three major evaluations in the agricultural, educational and potable water sectors. Nonetheless, our assumption in this CDSS is that our basic strategy of institutional and human resource development, as outlined in previous statements, is

LIMITED OFFICIAL USE

## LIMITED OFFICIAL USE

-8-

accepted. USAID's primary concern now is to implement existing or already identified activities and concentrate on fewer high priority project interventions. We do not foresee major shifts in objectives, although a change in program modalities may be necessary in education. In the future, we may wish to re-examine our earlier recommendations to withdraw from the health and water policy sectors.

Before turning to a discussion of the major elements of our program strategy in order of priority emphasis, we wish to add a brief word on the private sector. As presently structured, our project portfolio has a significant element of private sector involvement - projects 052, 044, 045, 065 and prospectively 075 - all have important private sector components. We have been asked to examine private sector constraints in Yemen from the standpoint of how USAID might be able to facilitate the private sector role in Yemen's development. We frankly question the merits of an in-depth study of Yemen's private sector unless AID is prepared in the near future to entertain a discrete private sector intervention, in full awareness of funding, staffing and management implications associated with an additional activity. Alternatively, we suggest a review of our existing portfolio from the standpoint of identifying possible additional private sector initiatives.

B. Population: Population tops the list of our priority sectors, although we do not yet have a bilateral population project. Yemen's SFYP

LIMITED OFFICIAL USE

## LIMITED OFFICIAL USE

-9-

estimates Yemen's annual growth rate to be one of the higher rates in the developing world. Its population now tops 7.1 million people and because of its momentum the level will double in the next 20 years, regardless of the success of family planning programs.

The SFYP neither admits to a population problem nor posits a strategy. Yet, an increasing number of Yemenis - male and female - are concerned about the consequences of rapid population growth. Anecdotal information indicates a pent-up demand for family planning services.

Since late 1982, awareness of the population problem appears to be increasing and has been given increased attention by the Government-controlled press. In December 1982, the AID-financed RAPID analysis was presented to the Prime Minister, the Vice President and a large number of the Cabinet. RAPID data and text appeared in local newspapers with supportive editorial comment. The Arabic version of the RAPID booklet was widely distributed. In the year since the RAPID presentation, through central funding we have provided family planning advice to the Ministry of Health, the Yemen Family Planning Association and the private sector. In October 1983, 75 YARG and private officials (men and women), representing ministries, businesses, the clergy and traditional and modern medical personnel discussed medical, cultural, social, religious and institutional issues associated with family planning at an AID-financed conference. The conference and follow-up meetings with MOH and YFPA laid the basis for a FY 1984 bilateral project.

LIMITED OFFICIAL USE

## LIMITED OFFICIAL USE

-10-

The primary issue now is not what to do but how to do it. We propose a three-year project to test interventions through public and private intermediaries. The project will increase the institutional base of trained personnel and use mass media to promote the complementary concepts of MOH and family planning. It will strengthen the ability of the YARG to plot demographic trends and strategies. Growing out of this initial project we hope to design a more comprehensive vehicle - one with broader objectives directly related to fertility reduction. This process may be slow - slower than we like, considering the existing 3.4% population growth rate. Should we - can we - move faster? We think not. Project evaluations over the past few years indicate strongly that designs that overlooked or under-estimated cultural aspects of Yemen's society and institutions had high failure rates. We believe that public acceptance of and demand for family planning services may be strong but the institutional base to deliver services weak. We need to build an institutional base and find out what will work before branching out.

C. Basic Education and Technical Training: USAID's strategy is to strengthen key elements of the education infrastructure by: (1) improving the Government's capacity to make rational decisions about labor force training needs and the allocation of training resources; (2) developing Yemen's capacity to provide professional-level training in key developmental fields (education, science and agriculture) and; (3) expanding

LIMITED OFFICIAL USE

## LIMITED OFFICIAL USE

-11-

access to, and increasing the efficiency of, basic education.

AID's general training projects are designed to help meet the YARG's technical and management manpower needs for the SFYP and to develop a government-wide training plan. Development Training III will continue this effort, expanding activities to include labor force and training needs assessments for the semi-private and private sectors and training programs to address the specific needs of these sectors.

USAID has addressed professional-level training programs by preparing faculty for Sanaa University, particularly in the fields of science and education, through its general training projects and, for Yemen's Teacher Training Institutes and the Ibb Agricultural School, through project-specific training (Projects 053 and 052, respectively). Such activities will be continued in the future and expanded to include AID support for the development of a Faculty of Agriculture at Sanaa University.

In all of its training programs, USAID will emphasize the development of overall training plans, broader Yemeni participation in the selection of candidates for AID-funded training and higher selection standards. English language requirements have already been raised. Beginning in CY 1983, the Mission's English language call-forward score was pegged at a TOEFL score of 500, up from 450.

LIMITED OFFICIAL USE

## LIMITED OFFICIAL USE

-12-

USAID initiated a basic education project in 1979 designed to increase Yemen's capacity to produce qualified primary-level teachers and improve the administrative efficiency of the Ministry of Education. Planned activities included training faculty members for Yemen's Teacher Training Institutes and the Faculty of Education at Sanaa University, in-service training for Yemeni elementary teachers, curriculum development within the Faculty of Education and training for key Ministry of Education administrators.

An external evaluation of the Basic Education Project began in November 1983 with the final report expected late January 1984. Although the evaluation team's conclusions and recommendations are not available to us at this time, it is known that team members questioned the appropriateness of certain basic elements in the project design. Those elements questioned included: (a) M.A.-level training in the U.S. for faculty of Teacher Training Institutes, (b) the emphasis in this training on teaching methods rather than subject matter and (c) Ph.D.-level training for Ministry of Education administrators. The evaluation was also critical of the present project contractor's performance.

USAID fully expects the evaluation will lead to substantial revisions in the design of the Basic Education Project; however, its overall objective in the area of basic education will continue to focus on the critical problem of teacher supply. The extent of this problem is highlighted by the fact that there are approximately 15,000 expatriate teachers in Yemen and that 80% of the primary-level teachers are expatriates.

LIMITED OFFICIAL USE

## LIMITED OFFICIAL USE

-13-

USAID's discussion of this problem with the YARG will focus on issues related to reducing the demand for teachers as well as increasing the supply. With regard to demand, we will explore the possibility of developing a master-teacher-cum-teacher-aide system as well as the use of educational television. With regard to supply, we will support YARG efforts to develop rural teacher training institutes. This support will include curriculum development for those institutions, the provision of educational materials and instructional equipment and faculty training. We will encourage YARG efforts to increase the number of female teachers. In this regard, we will explore the possibility of developing a special training program for women in their mid or late 20s who may be freer than younger village women to begin careers as teachers or teacher aides.

Discussions related to the evaluation of the Basic Education Development Project highlighted YARG criticisms of both Project design and implementation. At the same time, they revealed the YARG's concern to re-shape the project in ways that will accomplish its original goal and purpose. Among the YARG's suggestions were greater use of third country training in the preparation of teacher trainers to overcome the English language obstacle, more subject content in the M.A. program to better qualify teacher trainers to develop curricula in their fields and a broader distribution of M.A. candidates among U.S. universities to stimulate greater discussion of educational ideas and programs. We regard these suggestions as a positive indication of the YARG's willingness to engage AID in a dialogue about the nature and direction of educational assistance.

LIMITED OFFICIAL USE

## LIMITED OFFICIAL USE

-14-

D. Agriculture: The Agricultural Sector Assessment which was completed in early 1983 recommended a four-part strategy for U.S. assistance:

1. Assistance to education, emphasizing B.S.-level and secondary school-level agricultural education.
2. Assistance to expand the institutional capacity of the Ministry of Agriculture and Fisheries (MAAF) to provide services to private farmers.
3. Assistance to increase the capability of the MAAF to encourage the efficient on-farm utilization of water.
4. Assistance to promote private sector development, particularly in marketing agricultural products.

Over the past year, program emphasis has shifted from strategy formulation and project design to project implementation. Only two additional subprojects are planned during the life of this CDSS - the Faculty of Agriculture and Irrigated Farming Practices. (See the next section for a discussion of the latter subproject.) Existing subprojects are well within the framework of the existing strategy.

During 1983 an external evaluation of the project was conducted. Although at this writing the final report has not been completed, we believe it will conclude that the Agricultural Development Support Program has made substantial progress toward subproject goals and purposes, but that it is too early to assess broader program goal achievement. The evaluation identifies a number of implementation problems requiring procedural modifications, improved contractor performance, subproject

LIMITED OFFICIAL USE

## LIMITED OFFICIAL USE

-15-

extensions and changes in implementation plans. Specific actions to meet evaluation recommendations will be formulated when the evaluation report is completed.

Looking to the future, concentration will continue to be on implementation. More specifically, we will be emphasizing:

1. Refining relationships among the various parties in the collaborative mode. In particular, the Consortium for International Development (CID) organizational structure both in the U.S. and in Yemen has caused operational problems and inefficiencies. We intend to define and reach agreement on organizational responsibilities and authorities within the project. This should have a positive influence on implementation.

2. Strengthening agricultural planning. A good beginning has been made under the Core Subproject. As approved advisory positions are filled in the Ministry of Agriculture, we will need to assure that advisors' contributions are appropriate, timely and relevant to the institutional development process. The Documentation Learning Resource Center (DRLC) will also contribute strongly to this objective.

3. Continuing institutional development objectives. A growing shortage of foreign exchange has caused the Ministry of Agriculture to shift emphasis to production gains. The Horticulture Improvement and Training (HITS), Poultry Extension and Training (PETS) and, to a lesser extent, the Ibb Secondary Agricultural Institute (ISAI) Subprojects have production elements - some of which have come on line earlier than training and technology transfer inputs. We will need to maintain a

LIMITED OFFICIAL USE

proper balance between production and other objectives within subprojects in order to assure institutional goals.

4. Expanding agricultural education. The ISAI subproject will be extended and its mandate expanded to include technical assistance to the Surdud Agricultural High School and the Veterinary Technical High School. The Faculty of Agriculture subproject has solid support and high priority from the YARG. In addition to being the keystone of our strategy of technology transfer through institution-building, the subproject promises to be an important co-financing venture with the Saudi Fund. Another element of agricultural education will be training, both externally in the U.S. and Middle East countries and locally in short-term courses offered under the HITS, PETS and ISAI subprojects.

5. Continuing to provide support at local and national levels to develop private enterprise serving farmers. The HITS and PETS subprojects have private sector components. These will be strengthened. Advisors provided under the Core subproject should have positive influence on the Ministry of Agriculture private sector policies. Also, through the Core subproject we intend to look at ways in which the U.S. private sector might contribute to Yemen's agricultural development, in particular through development of a market for U.S. irrigation and farm mechanization equipment.

E. Water Scarcity and Utilization: Water is one of the most serious issues facing Yemen today. Scarcity of water and increasing real costs

## LIMITED OFFICIAL USE

-17-

for incremental water supplies are major factors inhibiting the growth of agricultural production, the provision of safe and convenient household water and the development of effective urban and rural sanitation. Underlying the problem of water scarcity is the fact that the water table, which may not be replenishible, is dropping alarmingly in many parts of Yemen.

Heretofore, our water activities have been somewhat fragmented and have lacked a central focus. These have been essentially threefold: (1) urban water development (Projects 039 and 028), (2) water planning and policy (Project 043) and (3) rural water systems (044).

We have not as yet become involved in providing technical assistance on the supply or control of water for agricultural purposes, in part, because of political sensitivities associated with water rights in rural Yemen.

In the FY 85 CDSS we proposed phase-out of urban water development upon completion of projects in that area. In addition, we reluctantly recommended to eschew further involvement in the water policy and planning area, despite its vital importance, because of lack of progress with earlier efforts. At the same time, we proposed to initiate some "modest" efforts with water utilization and management under the agricultural program and to continue with institutional development of our rural water activities.

LIMITED OFFICIAL USE

## LIMITED OFFICIAL USE

-18-

This is essentially the course of action that we are presently following in the sector. Urban water development projects will be terminated on schedule and with relative success. Future activities in these areas will be limited to training under Project 080. Following deobligation of some \$1.4 million from Project 043 we have, for all intent and purposes, terminated water planning and policy activities. Responding to a favorable evaluation recommendation, a proposal is now being prepared to extend Project 044 for five years to broaden institutional development within the Ministry of Public Works Rural Water Division. The evaluation outlines the basic rationale for the proposed continuation of the project; however, briefly the extension will concentrate on completing within the Rural Water Division the development of an effective mechanism for planning and implementing potable water and sanitation systems in rural Yemen.

As noted earlier, in FY 86 we plan our first venture in on-farm water practices in a proposed subproject under the Agricultural Development Support Project (052). This follows recommendations made in last year's Agricultural Sector Assessment and the recent evaluation of Project 052. A concepts paper outlining the proposed subproject design will be submitted for review shortly.

One key issue is whether USAID should involve itself at all in the sector in the absence of a commitment on the part of the YARG to develop a comprehensive water policy. We believe we should for several reasons:

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

-19-

(1) by staying out of the sector, we are not leveraging any YARG action to develop policy; (2) conversely, as argued recently in a Bureau paper on the water sector, policy influence is possible only if AID already has involvement in the sector and (3) the venture we propose is essentially "policy neutral"; i.e., its success does not depend on the YARG developing a comprehensive policy. However, its outputs will be an essential part of any water policy when developed.

Looking more broadly, should we, despite misgivings, seek to influence water policy more directly? As stated previously, water policy is one of the most important issues facing Yemen today and is high on the Near East Bureau's priorities for the region. There are some signs that the YARG may begin soon to address the issue. On the other hand, if the past is any guide, our expertise may be solicited by the YARG but not used. We confess ambivalence and await the results of the upcoming water sector assessment to give us guidance. In any event, even if we decide not to involve ourselves immediately and directly with policy formulation, we can look upon the CID water policy advisor, the rural water systems project (044) and the irrigated farm practices sub-project as "Trojan horses" which eventually may lead to a more direct role with policy.

F. Health: Our fifth strategic priority is health. (For the purposes of this discussion we will exclude potable water which has been addressed previously.) The SFYP objectives in health are to provide basic and

LIMITED OFFICIAL USE

## LIMITED OFFICIAL USE

-20-

preventive health services to the maximum number of people, particularly in remote areas and to promote health and nutrition education.

Our strategy is to continue to develop a replicable, cost-effective, primary health care system in the Tihama. Health care services in the Tihama region, one of the poorest areas of Yemen, are minimal and are presently provided mainly by untrained personnel. Management Sciences for Health (MSH), the new contractor under Project 065, is now fully staffed and work is underway to extend primary health care outreach and to modify existing management, logistics and accounting systems.

Two problems, legacies of the past, remain of concern. One was a lack of understanding on the part of the MOH of the institutional developmental objectives of the project. The new contractor has established good working relations with the MOH and it appears as though the Ministry values the technical advice it has been receiving. This is an encouraging sign; however, in Yemen, technical assistance always "takes" slowly. The second concern is that the project budget item covering recurrent costs (salaries, supplies, etc.) is substantially lower than under the previous contractor. A scheduled phase-down of recurrent costs covered by the project had been negotiated with the MOH; however, under its reduced budget, the MOH is having difficulty adhering to the agreed schedule. Further discussion with the YARG will be necessary.

The project has become an increasingly important vehicle for addressing such priority activities as oral rehydration therapy, nutrition and

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

-21-

family planning. The maternal/child health focus of the project will give us better ideas of which interventions are most successful in Yemen. These could lead to future activity, particularly in Oral Rehydration Therapy (ORT).

Should we reconsider our earlier recommendation to withdraw from the health sector upon completion of the present project? ORT and nutrition are recognized in the Bureau strategy as closely in support of population activities. On the other hand, a continued health intervention will place demands on Mission management and could detract from the essential focus of our strategy. Our recommendation at this time is to wait another year before making a decision to see if progress on the existing project supports continuation of activities in the health sector.

G. Earthquake Relief and Reconstruction: Although not part of our overall development strategy (in the sense that reconstruction assistance does not contribute directly to institutional and human resource development), we have a limited commitment to respond to Yemen's earthquake reconstruction needs in Dhamar Province. The December 1982 earthquake, which killed 1,600 and left 265,000 homeless, has caused a serious setback to Yemen's development objectives. The U.S. has and should continue to assist in YARG reconstruction efforts in a manner which maximizes the impact of our assistance (and, hopefully, that of others), while minimizing the risk of overextending ourselves in a sector of peripheral importance to our overall development objectives.

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

-22-

The U.S. has already provided as much if not more than any other western donor to the Dhamar earthquake relief. Within days after the initial shock, the U.S. airlifted 3,000 tents, 15,000 wool blankets, eight 3,000-gallon water tanks, six generators and medical supplies at an estimated cost of \$2.6 million. At the request of the Ministry of Public Works, the Project 044 contractor surveyed damaged and destroyed water systems in the Dhamar area. Subsequently, \$500,000 was added to the project for rehabilitation of water systems (to be supplemented shortly by \$1.0 million recently approved de-ob/re-ob funds to be added to the project). (In addition, the project will supervise the installation and use of approximately \$2 million in water systems equipment and commodities made available by the West German Government.) In conjunction with the FAO, the U.S. also agreed to replace beehives and poultry flocks destroyed as a result of the earthquake. Approximately \$200,000 worth of resources from Project 052 have been used for that purpose. Finally, in response to a World Bank recommendation that a survey of damaged homes in the area was badly needed, AID made \$200,000 available for the services of an architect and three engineers for the Supreme Council for Reconstruction (the newly-created YARG agency responsible for earthquake reconstruction). Working with Yemeni counterparts, the engineers have organized and started the survey, instituted a program of demonstration repairs and have completed a series of recommended standard repair designs which can be used in undertaking future housing rehabilitation.

LIMITED OFFICIAL USE

## LIMITED OFFICIAL USE

-23-

While initial rehabilitation activities have been going on, the Supreme Council has been developing longer-term reconstruction plans. The YARG has conceived of three discrete programs. The Core program, which is receiving most YARG attention at the moment, involves the construction of some 15,000 homes in "new villages". We have several problems with this approach. The first concerns cost. The proposed Core housing designs are uneconomic and are to be built on a turnkey contractual basis, which we believe will be excessively expensive and likely will open the door to corruption. Second, and related to the first point, the YARG will likely not have sufficient resources to cover the cost of this and other reconstruction programs (our best estimates are that the Government has approximately one-half of the public funding which was estimated by the World Bank to be needed for reconstruction) and has done little to develop plans for even partial cost recovery from beneficiaries. As a consequence, the Government will almost certainly be faced with a problem of equitable distribution of benefits - one it has been trying to avoid. Finally, the "new villages" concept has largely ignored social considerations. Villages, LDAs and other local organizations have been largely left out of plan development and self-help involvement of villages in housing construction is not envisioned.

The second planned program is housing rehabilitation. As noted above, the U.S. has had a substantial input into initial efforts to organize housing rehabilitation. The problem, however, is that rehabilitation

LIMITED OFFICIAL USE

efforts thus far have focused primarily on engineering and administrative considerations, and a sound concept of how actual rehabilitation will be carried out has not yet been developed (i.e., how beneficiaries will be selected, degree of beneficiary involvement, degree of cost recovery, etc.).

The third program is to be developed outside the "core" new village area and involves the construction/rehabilitation of up to 17,000 homes on a "self-help" basis. This program, now only vaguely conceived by the YARG, will be initiated largely by a few western donors - the Netherlands, the EEC, West Germany and possibly the UNDP. Prototype core houses will be constructed and beneficiaries will be brought into the reconstruction process. Technical assistance and training will also be provided by the donors.

After a review of various alternatives (including, inter alia, the possibility of reconstruction of infrastructure which was discarded when the Gulf states were reported to have made \$43 million available for schools, clinics, mosques and other infrastructural development), we propose to join with the Netherlands, the EEC and the Peace Corps in a comprehensive reconstruction project in the Magrab Ans District of Dhamar which will combine important elements of the second and third programs outlined above; i.e., rehabilitation and reconstruction of homes. The project will combine technical assistance and engineering supervision by a Dutch engineering firm, financing from the EEC and the U.S. (PL-480 proceeds) and U.S. Peace Corps construction supervision and training. Prototypes of appropriately scaled new homes will be constructed, samples

LIMITED OFFICIAL USE

-25-

of housing repairs will be undertaken and self-help by villagers will follow. The Netherlands/EEC will provide approximately \$4.3 million in services and financing and the U.S. about \$3 million (and perhaps \$5 million more from a FY 85 PL-480 Title I program). At this time, we do not foresee a requirement for DA funding.

While much of the project concept remains to be worked out, we are hopeful that the comprehensive approach, with its emphasis on self-help and cost-effectiveness will serve as a model which may later influence the YARG to alter its present approach to reconstruction. At the same time, by being largely a financier of the activity (rather than implementer) we hope to avoid over-involvement in an activity which is not directly related to our core strategy.

G. PL-480 Title I: The \$3.0 million Title I program planned for FY 84 and the \$5.0 million program proposed for FY 85 provide a small measure of foreign exchange relief for the YARG, and the sales proceeds will be an important, if modest, input to earthquake reconstruction.

Production and import data indicate YAR's heavy reliance upon imports and local sorghum and millet. The production impact of the earthquake and drought is not known now, but based on price increases, stock estimates and anecdotes from field trips, we estimate about a 14% to 18% present (1983) reduction in local grain production (in contrast to an FAO/WFP report which estimated a 42% drop in grain production). Both FAO and IMF estimate a need for an additional 115,000 MT of wheat imports in 1984. This makes a strong case for the planned FY 84 and FY 85 PL-480 Title I programs.

LIMITED OFFICIAL USE

However, beyond FY 1985, we have reservations regarding a longer term PL-480 program because of the probability that the YARG will come to depend on an annual PL-480 program, which, given other priority demands on the limited PL-480 budget, will be difficult to sustain.

#### IV. YEMEN'S DEVELOPMENTAL PRIORITIES IN THE CONTEXT OF REGIONAL STRATEGY

Yemen shares a number of characteristics with other Near East countries, although in other respects it is atypical. It has a small, but rapidly-growing population supported on a limited arable land base. Water is an increasingly scarce resource. Agricultural productivity has not kept pace with population growth. Not surprisingly, therefore, Yemen's development priorities are in substantial accord with those of the Near East Bureau strategy.

<u>Bureau Ranking</u>	<u>USAID Ranking</u>
1. Population	1. Population
2. Urbanization	2. Basic Education/Technical Training
3. Water Scarcity/Utilization	3. Agricultural Productivity
4. Urban Labor Productivity	4. Water Scarcity/Utilization
5. Basic Education/Technical Training	5. Health
6. Agricultural Productivity	6. Urbanization
7. Energy	7. Energy

Of the seven Bureau development priorities, Yemen's are in general conformance except that we have included health as a priority and have omitted urban labor productivity. We have included health because of Yemen's high infant mortality rate, low life expectancy and the close relationship of health to population concerns. Other differences are by degree of priority. We have ranked education high because of Yemen's

-27-

extremely low technical and educational level and the importance of this to its development. Agricultural productivity is also ranked higher because of agriculture's importance to Yemen's economy.

The greatest divergence between the Bureau strategy and ours is the relative importance of urbanization (and related to it, urban labor productivity). Yemen's census in 1975 estimated that 89% of its population lived in rural areas and only 9% lived in settlements of over 5,000 persons. In contrast to other Near East countries, Yemen is mostly rural. On the other hand, Yemen's urban areas are growing at a very fast pace. A recent estimate of the growth of the six major cities in Yemen from 1975 to 1981 averaged 39% which confirms earlier Bureau studies which indicate that its urban population growth was the highest in the region. In addition to rapid growth, Yemen's urban areas have very little infrastructure to build upon and have only the rudiments of the institutional capacity with which to contend with growing urban problems.

Clearly, urbanization is an area which we should begin to pay more attention to. We propose a four-part strategy. First, we will begin to inform ourselves more about Yemen's urban growth phenomenon and problems. We will look to Bureau funding to assist us in this regard. Second, we plan to assist the Central Planning Organization in its efforts to collect and analyze 1985 census data using funding from Project 080. Third, also through Project 080, we plan to train Ministry of Municipalities personnel in environmental sanitation, surveying, engineering and urban planning. Finally, with Bureau concurrence, we would like to begin to explore with

-28-

the YARG the feasibility of an urban development technical assistance project for FY 86 based generally on the concept outlined in our FY 85 ABS.

V. RESOURCE ALLOCATION

Program Shares by Appropriation Account (% by year)

	<u>FY80</u>	<u>FY81</u>	<u>FY82</u>	<u>FY83</u>	<u>FY84</u>	<u>FY85</u>	<u>FY86</u>
ARDN	47	38	51	54	44	44	50
Health	28	33	21	18	25	20	12
Pop	0	0	0	0	02	03	06
EHRD	25	29	28	28	29	33	26
SDA	0	0	0	0	0	0	06

Pipeline has not been a program issue. The 9/30/83 pipeline of \$37.9 is 1.9 times actual FY 83 expenditures and only 1.17 times planned FY 84 obligations.

Program Mortgage (LOP authorization less actual obligation) has been reduced to a manageable \$44 million as of the end of FY 83. The amount is only 1.6 times the level of FY 84 obligations. The mortgage will increase somewhat as new projects (080, 044 extension) Faculty of Agriculture) are authorized.

Forward Funding guidelines (at least 12 advance months funding) have been fulfilled for all ongoing projects. The same is true for new projects and subprojects (18 months advance funding) except in the case of the POP/Family Planning Project (297-075). However, this will not be initiated until the last quarter of FY 84 and a first quarter obligation is planned for FY 85 that will increase funding to nearly 50% of LOP requirements.



PRODUCTION AND IMPORTS OF BASIC FOOD COMMODITIES IN YAR  
(Yearly Average 1979-81 in Thousand Metric Tons)

Commodity or Commodity Group	Production	Imports	Domestic Supply	Available for Domestic Food Use	% of Nutrients Provided		
					Protein	Fat	Calories
Sorghum and Millet	634.3	2.0	636.3	529.2	31.0	27.9	36.4
Wheat	66.0	223.0	289.0	0	*		
Wheat Flour	0	99.5	316.6	310.3	34.9	6.4	23.6
Maize	50.0	5.0	55.0	39.2	2.2	1.9	3.0
Barley	49.0	10.0	59.4	31.9	1.7	*	2.0
Milled Rice	0	22.7	22.7	22.7	9	*	1.8
Pulses	81.3	.9	82.2	72.7	9.7	9.7	5.3
Potatoes	132.0	0	132.0	106.2	.8	*	1.6
Vegetables	268.7	34.2	302.9	275.2	2.5	.8	1.3
Grapes	58.3	10.0	68.3	61.5	*	*	.5
Other Fruits	84.3	220.3	304.6	278.8	1.1	2.3	3.0
Red Meats	24.2	3.1	27.3	27.3	2.3	6.4	1.2
Poultry	6.5	55.0	61.5	61.5	4.4	6.4	1.5
Eggs	5.8	7.7	13.5	12.5	.9	1.9	*
Milk 3/	130.4	36.5	166.9	161.5	4.4	3.0	2.3
Sugar		122.2	122.2	122.2	*	*	10.0

1/ Subtracts out estimates for animal feed maintenance, non-food use, and waste

2/ Includes 32.3 M.T. of preserved vegetables

3/ Includes cow, sheep, goat, camel, dried, fresh and evaporated milk products. Does not include cheese, which would add 4.4 thousand M.T. to domestic supply.

4/ Does not include 28,000 head of cattle imported

5/ All maize four

6/ 501.1 sorghum flour

7/ All pearled barley

\* Less than 0.5%