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U N C L A S S I F I E D

AGENCY FOR INTERNATIONAL DEVELOPMENT

Washington, D. C. 20523

PROJECT PAPER

Yemen: 279-0085
Yemen Enterprise Support
Project

U N C L A S S I F I E D

Project Paper
YEMEN ENTERPRISE SUPPORT PROJECT

USAID/Yemen
(Project No. 279-0085)

March 1990

AGENCY FOR INTERNATIONAL DEVELOPMENT PROJECT DATA SHEET		1. TRANSACTION CODE <input type="checkbox"/> A = Add <input type="checkbox"/> C = Change <input type="checkbox"/> D = Delete	Amendment Number _____	DOCUMENT CODE 3
2. COUNTRY/ENTITY Republic of Yemen		3. PROJECT NUMBER 279-0085		
4. BUREAU/OFFICE Asia/Near East Bureau		5. PROJECT TITLE (maximum 40 characters) Yemen Enterprise Support (YES)		
6. PROJECT ASSISTANCE COMPLETION DATE (PACD) MM DD YY 09 3 09 9		7. ESTIMATED DATE OF OBLIGATION (Under 'B' below, enter 1, 2, 3, or 4) A. Initial FY 9 0 B. Quarter 4 C. Final FY 9 9		

8. COSTS (\$000 OR EQUIVALENT \$1 = 12.00YR) * in YR equivalent

A. FUNDING SOURCE	FIRST FY 90			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total	660	190	850	11,700	3,000	14,700
(Grant)	(660)	(190)	(850)	(14,700)	()	()
(Loan)	()	()	()	()	()	()
Other U.S.						
1.						
2.						
Host Country					5,330*	5,330*
Other Donor(s)						
TOTALS	660	190	850	14,700	5,330	20,030

9. SCHEDULE OF AID FUNDING (\$000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) FN	100	840		0	0	14,700	0	14,700	0
(2)									
(3)									
(4)									
TOTALS									

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)
 100 710 700 830 874

11. SECONDARY PURPOSE CODE
 700

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code	PVOU	TNG	PVON			
B. Amount	.6 m.	1.6 m.	.2 m.			

13. PROJECT PURPOSE (maximum 480 characters)

Establish self-sustained mechanisms that will improve the business climate in Yemen for market-oriented trade and investments.

14. SCHEDULED EVALUATIONS

Interim	MM YY	MM YY	Final	MM YY
	02 9 3	0 99 6		0 1 99

15. SOURCE/ORIGIN OF GOODS AND SERVICES
 000 941 Local Other (Specify) _____

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page PP Amendment)

17. APPROVED BY	Signature: <i>Kenneth H. Sherpa</i>	18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION MM DD YY
	Title: _____	

AID 13504 (8-79)

PROJECT AUTHORIZATION

Country: Republic of Yemen
Project Name: Yemen Enterprise Support (YES)
Project Number: 279-0085

1. Pursuant to Section 103 of the Foreign Assistance Act of 1961, as amended (FAA), I hereby authorize the Yemen Enterprise Support (YES) Project for the Republic of Yemen, with obligations not to exceed U.S. Dollars 14.7 million (\$14,700,000) in grant funds over a nine-year period, subject to the availability of funds in accordance with A.I.D.'s budget and allotment process, to help in financing the foreign exchange and local currency costs of the project. The planned PACD is September 30, 1999.

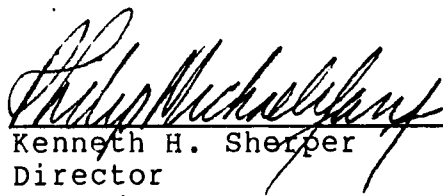
2. The project will consist of the provision of technical services and commodity support aimed at promoting the expansion of the private sector in Yemen. The project will benefit the Yemeni private sector as a whole including private sector enterprises serving rural areas and involved in agribusiness. The project purpose will be accomplished through activities carried out under three separate but inter-related components. First, a policy and regulatory implementation component will concentrate on supporting policy reform aimed at promoting private sector activity in Yemen. Second, an investment promotion component will assist in the establishment of an Investment Promotion Authority in Yemen and support-related activities aimed at promoting private sector investment in Yemen. Third, an enterprise productivity component primarily involving technical assistance and training will address constraints to growth in the private sector resulting from limited management and production skills.

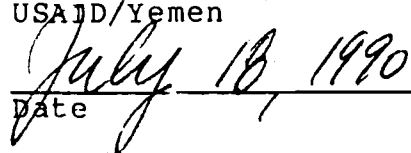
3. The Project Agreement which may be negotiated and executed by the officer to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority, shall be subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate.

- a. Goods and services, except for motor vehicles, financed by A.I.D. under the project, shall have their source and origin in the United States, in the Republic of Yemen, or in other countries included in A.I.D. Geographic Code 941, except as A.I.D. may otherwise agree in writing. Except as otherwise agreed in writing by A.I.D., motor vehicles financed by A.I.D. shall have their source and origin in the United States.
- b. Prior to the first disbursement under the Grant or to the commitment of the Agency thereof, the Grantee shall furnish the following to A.I.D. in form and substance satisfactory to A.I.D.:
 1. Specimen signatures of the agent or agents authorized to sign project amendments or project implementation documents on behalf of the Grantee;
 2. The name and office designation of the Grantee Project Representative, who shall be at the Minister level or higher; and
 3. The names and titles of the employees of the Government of Yemen and appropriate Yemeni private sector organizations designated to fulfill the required project counterpart positions.
- c. The following waivers to A.I.D. procurement regulations are hereby approved:
 1. A source and origin waiver from A.I.D. Geographic Code 941 to Code 935 to permit the procurement of up to \$200,000 of computer, photocopy and audio-visual equipment needed for project implementation.
 2. A source and origin waiver from A.I.D. Code 000 to Code 935 to permit the procurement of up to three automobiles, whose value will not exceed a total of \$50,000 (exclusive of transportation costs), needed for project implementation.
 3. A nationality waiver from A.I.D. Geographic Code 941 to Code 935 to permit the procurement of up to \$2 million of technical services requiring high levels of Arabic reading, writing, and verbal skills. (Geographic Code 935 will allow services to be procured from Saudi Arabia and Kuwait; services will also be procured from Egypt and Jordan, countries in Geographic Code 941 for which no exemption is required).

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4. The foregoing waivers are authorized by Handbook 1B, Chapter 5B4a(2) because the services and commodities to be procured either are not always available from countries in the authorized geographic code or, in the case of certain commodities and the automobiles, cannot be adequately serviced or maintained in Yemen due to a lack of spare parts, replacements, and service facilities, which are as a practical matter unavailable in Yemen.
5. I hereby determine that special circumstances exist within the meaning of FAA Section 636(i), namely the lack of adequate spare parts, replacements and service facilities in Yemen, which permit the procurement of motor vehicles not manufactured in the United States.
6. I hereby certify that exclusion of procurement of goods from Free World countries other than the cooperating country and countries included in Code 941 would seriously impede attainment of U.S. foreign policy objectives and objectives of the foreign assistance program. I further certify that the interests of the United States are best served by permitting the procurement of services from Free World Countries other than the Cooperating Country and countries included in Code 941.
7. Authority to approve the foregoing waivers and make the certifications and determination set forth above has been delegated to the Mission Director pursuant to A.I.D. Delegation of Authority 654.



Kenneth H. Sherper
Director
USAID/Yemen


Date

Drafter:PRM:JAddleton:1170P

Clearances: RLA:DLuten (draft)
GDO:RMitchell (subs)
CONT:JDial
DD:PGary (draft)

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TERMS AND ABBREVIATIONS

AID	Agency for International Development
BMI	Business Management Institute
CCI	Chamber(s) of Commerce and Industry
CIPE	Center for International Private Enterprise (of the U.S. Chamber of Commerce)
CP	Condition Precedent
CPO	Central Planning Organization
DT III	Development Training III Project (279-0080)
EOP	End of Project
ERR	Economic Rate of Return
EXIM	Export Import Bank
FSN	Foreign Service National
FX	Foreign Exchange
FY	Fiscal Year
FYP	Five Year Plan
G&A	General and Administrative
GDP	Gross Domestic Product
GNP	Gross National Product
IESC	International Executive Service Corps
IPA	Investment Promotion Authority
JIM	Jordan Institute of Management
LOP	Life of Project
MEST	Ministry of Economy, Supply, and Trade
NIC	Newly Industrialized Nation(s)
OPIC	Overseas Promotion Investment Corporation
PACD	Project Activity Completion Date
PID	Project Identification Document
PIO/C	Project Implementation Order/Commodities
PCV	Peace Corps Volunteer
PP	Project Paper
PS	Project Secretariat
PSC	Personal Services Contract
PVO	Private and Voluntary Organization
RFP	Request for Proposal
SSII	Small Scale Industry Institute
S-T	Short Term
SUSTAIN	<u>S</u> haring <u>U</u> nited <u>S</u> tates <u>T</u> echnology to <u>A</u> id in the <u>I</u> mprovement of <u>N</u> utrition
T3I	Technology-Transfer and Training Institute
TA	Technical Assistance
TDP	Trade and Development Program
TIS	Trade and Investment Services
TOT	Training of Trainers
USAID	United States Agency for International Development
USG	United States Government
VITA	Volunteers in Technical Assistance
WID	Women in Development
YAR	Yemen Arab Republic
YARG	Government of the Yemen Arab Republic
YES	Yemen Enterprise Support
YESP	Yemen Enterprise Support Project

EXPLANATORY NOTE

This Project Paper was written prior to the announcement on May 22, 1990 under which the Yemen Arab Republic (YAR) and the People's Democratic Republic of Yemen (PDRY) unified to form the new Republic of Yemen (ROY). Although organizational names and titles have subsequently changed, the Project Paper itself thus retains the terminology and nomenclature of the old Yemen Arab Republic Government (YARG).

I. SUMMARY AND RECOMMENDATIONS

A. Recommendation

It is recommended that the Director approve a grant of \$14.7 million to the Government of Yemen to finance the Yemen Enterprise Support Project (YESP), with an estimated life-of-project cost of \$20.030 million. It is also recommended that the Director authorize an initial grant of \$850,000 to be made in FY 1990.

It is further recommended that the Director approve a waiver of source-origin requirements to permit the procurement of up to \$200,000 in computer, photocopy and audio-visual equipment from Code 935 countries.

B. Summary Project Description

The goal of the YES Project is to contribute to sustainable economic growth by stimulating private sector output and productivity. The Project expects to achieve this goal by establishing mechanisms that will address directly the constraints and opportunities facing private enterprise in Yemen.

YES is a new initiative aimed at expanding both bilateral and public/private collaboration. Consistent with the goals and purposes of the Project, it does not take a traditional "government to government" approach, but rather will be implemented largely by the private sector -- in collaboration with relevant Yemeni and U.S. government agencies. Accordingly, the success of the YES Project hinges on a high level of cooperation among private and public sector organizations in both Yemen and the United States.

Coordination and implementation of the Government of the Yemen Arab Republic (YARG) activities associated with the Project will be provided by the Ministry of Economy, Supply and Trade (MEST). Overall technical direction of the Project will be provided by an Advisory Committee comprised of an approximately equal number of members from the private sector and the public sector. Private sector representation will be provided by the Federation of Chambers of Commerce and Industry, the three largest chambers and, on a rotating basis, two of the other nine chambers in Yemen. Public sector members on the Committee will include, in addition to the MEST representative, senior representatives from the Central Planning Office (CPO), Central Bank of Yemen, and the Ministry of Finance.

The purpose of the Project will be accomplished through activities carried out under three separate, but inter-related, modules.

//

The modules are described below:

1. Policy Implementation

The activities of the Policy Implementation module will concentrate on bringing about reform of policies constraining private sector development in Yemen, and building up the capacities of private sector advocacy groups, such as the chambers of commerce and industry, and of key government entities, such as the Investment Promotion Authority (IPA), the Ministry of Economy, Supply and Trade, and the Ministry of Finance to analyze and develop policies that support a market-driven economy. Selection of policies for analysis will be made by the Advisory Committee. Analysis of specific policies and training in policy research and analytical methods will be provided through short-term technical assistance.

2. Investment Promotion

The activities of this module of the YES Project will be devoted to assisting the Investment Promotion Authority to be established by the YARG. Assistance provided under this module is intended to aid the IPA in establishing efficient management systems as well as highly effective promotional and investor assistance services. Technical assistance from the Policy Implementation module will also be available to assist the IPA develop competence in data gathering and policy analysis and to, in turn, provide support to the activities undertaken by that module.

3. Enterprise Productivity

The activities of this module will address the constraint to growth of the private sector in Yemen resulting from the limited availability of individuals with adequate skills in business management and production operations. Assistance provided through this module will also seek to increase the number of business start-ups in Yemen by providing basic business training courses to both men and women interested in becoming entrepreneurs. Activities carried out in this module will also include assistance to the larger chambers of commerce and industry in developing outreach, training and other support services for their members.

The project also provides for a Project Secretariat that will be responsible for contract administration and technical activities support. Certain activities of the recently amended Development Training III Project (270-0080), particularly the support provided to training in policy research and analytical methods, are closely linked to the objectives of the YES

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Project and will be coordinated with YES policy assistance activities. The DTIII Project also provides for training in the U.S. and third countries in subjects highly relevant to private sector activities. These activities will be integrated closely with YES Project activities in order to make the most efficient use of the resources of the two projects. The Project also expects to make use of services available through the mission-funded Technology Transfer and Training Institute (T3I) program to provide assistance to Yemeni businesses in the areas of applied science.

Implementation of the Project will be carried out in two phases. Two assessments and two external evaluations will be conducted to review project implementation and to determine the progress made toward increasing private sector output and productivity.

C. Summary Findings

The project analyses support the conclusion that the Project is economically, technically, socially, environmentally and institutionally sound and that it supports the development goals of the YARG. The active participation of the Yemen private sector in both the design and the implementation of the YES Project is highly consistent with the emphasis on private sector initiatives included in AID's current development assistance policies.

Assessments conducted to determine the technical feasibility of the Project indicated that the constraints to growth of the private sector in Yemen fell into three general categories: inappropriate policies; overly restrictive investment practices; and an inadequate supply of individuals with good business and management skills. These constraints can best be addressed by providing the YARG and the private sector in Yemen with technical assistance and training services that take advantage of the experiences of the U.S. and other countries in the region in addressing some of these same topic areas.

Projects of the nature of YES are not as well suited to the analysis of economic returns as projects that produce outputs that are more directly linked to project inputs and more easily measured, e.g., increased crop yields, or reduced mortality rates. The difficulty arises because the actions that determine the economic rate of return of the project are brought about only indirectly by the interventions of the project. Increased employment and industrial output in Yemen will result from investment decisions and adoption of new technologies that can only be attributed indirectly to the YES Project. Moreover, the economic benefits produced by these actions can not be estimated with any degree of reliability. Any calculation of the economic rate of return, therefore, would be nothing more

than an exercise in pure speculation. Experience and intuition both suggest, however, that the benefits produced by projects like YES that address policies and other enabling conditions affecting investment can be sizeable. One or two large, or several medium-size investments, for example, could easily produce an economic rate of return that is well in excess of 15%. Declaring any rate of return at this time, however, would require excessive reliance on conjecture.

While the economic benefits of the YES Project are difficult to measure, the cost of implementing the project are subject to a reasonable degree of control. Recognizing that all other things being equal, the implementation approach with the lowest cost will yield the best cost-benefit ratio, the financial analysis for the YES Project focused on determining the "least-cost" arrangement for implementing the Project. The results of this analysis suggested that for this project, it is more cost-effective for the USAID to manage the Project than to rely on a master technical assistance contractor. Project services will be more effective under USAID management because of the greater flexibility that exists in selecting both the type and source of technical assistance. Implementation costs are lower, because of the lower number of overhead personnel that are required and the savings in overhead and other indirect costs that are incurred.

Analysis of the potential social impact of the YES Project did not reveal any conflicts with current conditions or cultural values. Activities have been included in the Project that will benefit women directly and increase their participation in the private sector. Modest progress has been made toward increasing the number of women in professional positions in the public and private sectors, a trend that will be enhanced by the activities of this project.

Because the Project will provide technical assistance and training almost exclusively, there is no reason to expect any environmental impact resulting from implementation.

D. Design Issues

The Project Identification Document (PID) identified six issues to be resolved in the final design of the Project. The response to each issue is incorporated in the description of the relevant aspect of the Project. For convenience in the review of the Project, the issues and response provided by the Project design are summarized below:

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Issue No. 1: Role of Advisory Committee and relationship to individual project modules and selection of policy research agenda.

The YES Project will not rely on a master technical assistance contractor to support implementation. Instead, long-term advisors and short-term consultants will be contracted directly by the USAID. The technical direction typically provided to the other advisors by the chief of party in a master contract will be provided, for the most part, in the YES Project by the Advisory Committee. The management support and contract administration activities typically fulfilled by the chief of party will be carried out in the YES Project by the Project Secretariat.

The advantage of this approach is that the Committee "buys in" to the tasks that it assigns to each of the project modules. It is not expected that there will always be unanimous agreement among the members on the technical direction given by the Committee. However, the activities assigned to a project module are likely to benefit from the agreements on support (or non-support) and coordination that emerge from the discussion of specific assignments by the Committee members. This will probably be most true in selecting policy issues to be targeted. The proposed equal representation of members from the public and private sectors provides a "check and balance" approach to the selection of issues to be addressed.

Issue No. 2: How will the Project address the diverse interests of the individual chambers of commerce?

While the chambers reflect the diversity born of parochialism, and appear to differ in their interest in confronting the YARG on issues, the three major chambers and the Federation of Chambers of Commerce and Industry all agree on the vital importance of increasing the management and technical skills of Yemeni business persons and entrepreneurs. This common interest can be useful in moving the chambers to consensus on other issues. Realizing the potential for closer working relationships in the future will require an even-handed approach in selecting the sites and participants for training, but this should be easy to achieve.

Issue No. 3: How should the Small-Scale Industry Institute (SSII) be linked to the chambers to avoid working at cross-purposes?

The YES Project design has included the SSII in the Business Management Institute, the organization that will be responsible for productivity training, rather than establish the SSII as a stand-alone organization. This approach will

enable the SSII to benefit from the economies of scale and benefits of access to the facilities of the larger institute, but will also assure that the activities of the two organizations are coordinated.

Issue No. 4: How does the Project promote development of the administrative capacity of the various YARG implementing units and assure cooperation among them?

The "lean and mean" approach of the YES Project and the economical use of long-term advisors probably will be most responsible for the development of the administrative capacity of the implementing units. The Project certainly will not be awash with long-term expatriates as is sometimes the case, and which often results in displacing of implementing agency personnel. The implementing units will be relying on their own staff almost from the outset of the Project. Moreover, it is planned that the two long-term advisors will be contracted for only four of the ten years of the Project and are expected to be replaced by Yemeni personnel.

The role of the Advisory Committee will be beneficial also in bringing about more cooperation than might be the case if there was no common forum for the key participating Yemeni units.

Issue No. 5: How will the Project link to the Technology-Transfer and Training (T3I) Project?

The YES Project will be linked to the T3I Project through the Enterprise Productivity module. This module of the YES Project will support the development and operation of the Business Management Institute (BMI). Services available from the T3I Project will be marketed (not exclusively) as part of the marketing and promotional activities of the BMI. These services will be included in the package of services offered to business persons by the BMI and will be supported by the Institute through referrals and, to the extent possible, use of training facilities. The Institute is also expected to work through the T3I Project to obtain experts in various technologies as seminar leaders or guest lecturers for short-term courses of interest to Yemeni business persons.

Issue No. 6: What will be the least-cost approach to management of the diverse components of the YES Project?

By avoiding reliance on a master technical assistance contract to support implementation, the YES Project achieves a greater cost saving than is possible through any other project management configuration. This saving is achieved primarily through the reduced number of long-term expatriates required

and the attendant savings in overhead and other indirect costs. The approach, however, requires adequate attention to configuring the project management organization to assure that the technical direction and contract administration responsibilities generally performed by the Technical Assistance (TA) team leader or chief of party are fulfilled.

This requirement has been met in the YES Project by assigning the major responsibility for technical direction to the Advisory Committee. The instructions and guidance of the Committee will be provided directly to the long-term advisors responsible for the Enterprise Productivity and Investment Promotion modules. It will then be up to the advisors to identify the resources they require to carry out these assignments, and to supervise and participate in performing the tasks. In the case of the Policy Implementation module, the Committee will serve in the role of the long-term advisor and, with the assistance of the USAID Project Officer, will identify resources and a method of approach.

In all instances, the Project Secretariat will be responsible for the contract management activities associated with obtaining short-term TA services and arranging for training in the U.S. or third countries. The Project Secretariat will also serve as the focal point for preparation of the Annual Work Plans and Budgets and consolidation of the various reports required for effective project management.

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II. PROJECT BACKGROUND AND RATIONALE

A. Yemen's Economic Performance and Outlook

1. Economic Setting

Yemen is a small economy with a limited resource base, negligible merchandise exports, and an embryonic institutional infrastructure. Although receipts from oil exports have partially offset major foreign exchange (FX) losses resulting from the decline in worker remittances and donor aid, it is estimated that current oil resources will be exhausted in about a decade. Yemen's labor force will continue to increase at a rapid rate during this period. From 1975 to 1990, the economy absorbed about 2.1 million new workers who reached age 20. By the year 2015, an additional 7.4 million Yemenis will reach age 20 and enter the labor force.

Thus, Yemen has only a short period of time to launch sustainable economic growth that is not dependent on its oil exports. Future growth will have to achieve a much higher rate and follow a pattern different from the recent past, if standards of living are to rise and the employment base is to expand at a rate that approaches the increase in the size of the labor force.

Recent growth trends indicate that the economy, as presently operating, might not be able to meet these challenges. The average annual growth in non-oil GDP between 1984 and 1988 was 4.1 percent. Because of a drop in remittances, the compound annual growth rate of real GNP was only 2.4 percent during 1983-86, below the rate of population growth, below the national five-year plan target of six percent, and below the growth rate of the labor force.

2. Private Sector Progress and Prospects

Yemen's private sector has played a key role in the country's economic development. Between 1976 and 1984, the private sector contributed 53.5 percent of total investment. Five-Year Plan (FYP) projections for the 1986-91 period call for a 12 percent annual growth rate in real investment. It also assigns the private sector major responsibility for investment in industry, a sector that is to account for nine percent of all investment over the five years. Agriculture, which is controlled primarily by the private sector, is to absorb another eight percent of planned investment.

Private sector expansion and industrial growth have been severely hampered during the past several years by the slow pace of new investments and serious shortages of raw materials. Value-added production grew by only two percent in 1988. Gross

domestic investment declined during this same period from 29 percent of GDP in 1982 to 14 percent in 1987, a very low figure by international standards. Many existing private sector productive activities are operating well below capacity, making for an economy that is both inefficient and unproductive.

3. Government Policies

Government intervention in the private sector takes the form of import licensing and restrictions, foreign exchange controls, review of new and expansion capital investment and macro-economic management. These interventions have become more intrusive in ways that encourage capital intensity and that create the need for large initial investments. The result is a narrowing of the socio-economic base from which entrepreneurs are drawn, as well as non-competitiveness in tradable commodities. In an effort to improve the climate for business formation and expansion in Yemen, USAID has worked with and provided technical expertise to assist the YARG in drafting a new investment law. Differences introduced by the Parliament in its review of the version drawn up by the Supreme Council of Ministers are currently being worked out between the two bodies.

The new investment law reduces the role of the public sector in productive enterprises. In its current version, exporters will be permitted to keep 100 percent of their foreign exchange earnings. The investment law also provides for establishing an Investment Promotion Authority to centralize the services provided to investors and to encourage both local and foreign investment. Previous legislation granted special licensing privileges to returning workers in the interest also of encouraging them to invest their earnings in local enterprises.

Despite these very positive actions, the existing system of laws, regulations and policies, as well as the lack of technical and managerial skills available to the government agencies responsible for investment and private sector activities, are major impediments to sectoral growth and sustainable long-term economic development.

4. Summary

Long-term sustainable economic growth will depend upon the private sector's ability to initiate new productive enterprises, to improve the efficiency and competitiveness of current operations, and to earn foreign exchange through exports. Yemen is a nation of entrepreneurs poised for rapid and sustainable economic development under the appropriate conditions. Assistance provided by USAID and the multilateral agencies will encourage and support the YARG in its efforts to create a regulatory and policy environment that promotes,

rather than retards, business formation and expansion. Although there is much to be done, the Government has taken the difficult, initial reform steps.

The strategic goal of the entire USAID portfolio is sustainable long-term economic growth, a goal the Yemen Enterprise Support Project (YES) will promote by focusing on sustainable growth in private sector production that will provide productive employment opportunities for an expanding labor force.

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III. PROJECT DESCRIPTION

A. Goal and Purpose

The Project's goal is to assist Yemeni firms to achieve sustainable growth by expanding their trade and investment opportunities and increasing their level of skills. The project's purpose is to establish self-sustained private sector mechanisms that will improve the business climate in Yemen for market-oriented trade and investments.

YES is a new initiative aimed at expanding both bilateral and public/private collaboration. Consistent with the goals and purposes of the Project, it does not take a traditional "government to government" approach, but rather will be implemented largely by the private sector -- in collaboration with relevant Yemeni and U.S. government agencies. Accordingly, the success of the YES Project hinges on a high level of cooperation among private and public sector organizations in both Yemen and the United States.

B. Project Components

The Project will include three functional modules. The specific activities to be implemented under the three modules are described below. These activities will be implemented under the direction of joint private/public sector Advisory Committee whose functions are described in the section on the organizational management approach.

1. Policy Assistance

The first module of the YES Project provides a mechanism for private and public sector institutions in Yemen to engage in policy analysis and dialogue directed at overcoming constraints facing private sector development. Assistance provided under this module is expected to encompass virtually all aspects of policy analysis and formulation including: (i) preparing drafts of laws and regulations; (ii) providing support to policy dialogue and negotiations; (iii) recommending institutional or other organizational arrangements; and (iv) assisting in the design of strategies and mechanisms for policy implementation.

No fixed policy agenda is incorporated into the current YES Project implementation plan. A draft policy agenda will be prepared for Advisory Committee review as part of the Annual Work Plan and budget review process. Funding will be provided to the Project Secretariat to enable it to recruit short-term experts and undertake studies to support various aspects of policy analysis and formulation activities. Suggestions regarding prospective policy analyses or other

related studies will be provided by, in addition to the private and public sector members of the Advisory Committee, the Central Planning Organization, the Central Bank and the Ministry of Finance.

The procedures for selecting policy analysis proposals under the Project are outlined below (See Annex E-2 for a detailed description of policy assistance issues). Requests for assistance will be presented by the appropriate member of the YES Advisory Committee for consideration by the entire Committee. The Advisory Committee will approve or reject the proposals based on selection criteria established by the Committee.

The selection criteria listed below are suggested as guidelines for selecting policy activities undertaken by the Project. These criteria are consistent with the overall objective of the Project, and can be refined and confirmed as necessary by the Advisory Committee.

To be included as policy assistance activities funded by the YES Project, initiatives should meet the following selection criteria. The proposals should:

1. Result in concrete, implementable reforms.
2. Be directed at correcting market-distorting policies.
3. Focus on issues of direct interest to private sector entrepreneurs.
4. Not be biased against small business.
5. Seek reforms which stimulate trade and investment activities in line with Yemen's long-term comparative advantages.

Based on the numerous interviews conducted by the design team with both the private and public sectors, a set of "policy clusters" has been developed to organize the main areas for policy assistance. These clusters are sufficiently broad in scope to cover a wide range of policy issues. Moreover, each cluster encompasses a range of concrete constraints to private enterprise development. If significant progress is achieved in these areas by the end of the Project, the policy climate will have become significantly enhanced.

The following policy clusters are suggested for confirmation by the Advisory Committee in roughly descending order of priority:

1. Investment policies and implementation of the new investment law.

2. Trade policies and overcoming the chronic shortages of foreign exchange.
3. Financial policies, mainly relating to methods of stimulating increased domestic savings and investment through appropriate policies and instruments in the formal banking system.
4. Pricing policies - studying the possibility of introducing more flexible pricing policies which stimulate investment and control costs through price competition.
5. Small business policies would be examined to ensure that the incentive structure is not biased against small business.
6. Policy implementation and administration issues need to be assessed given that policies are often implemented in inefficient, discretionary or random manner.

The procedures and priorities outlined above should form a solid basis for the implementation of the activities planned under the policy implementation module of the Project.

Once the policy studies and agenda are decided upon, the Project Secretariat will be responsible for commissioning the studies from the funding provided for policy assistance activities.

2. Trade and Investment Promotion Module

The core activity under this module will be to assist in the institutional development of the proposed Investment Promotion Authority (IPA). In its recent draft investment law, the YARG has proposed establishing the IPA and providing it with full authority to promote and approve foreign and domestic investments in Yemen. The IPA will be semi-autonomous under the general supervision of the Ministry of Economy, Supply and Trade. Establishing a single agency such as the IPA to implement the new investment law provides strong evidence of the commitment of the YARG to attracting investment, both foreign and domestic.

Although the IPA is not yet operational, it is expected that its operations will be focus on four main functions including: (i) investment approval; (ii) research, policy analysis, and information; (iii) investor assistance; and (iv) investment promotion.

The trade and investment promotion module will assist the IPA by providing a long-term technical advisor who will provide institutional development support to the IPA to help it undertake the main functions described above. The advisor will advise the IPA in the organization and management of its operations. The advisor will have a strong managerial and institutional development background with overall knowledge in investment promotion issues. When specialized technical assistance or training is required, the advisor and the IPA would call on short-term technical assistance that would be provided through the Project.

In addition to the core activity under this module, smaller trade and investment promotion activities will be undertaken consistent with the mission of the IPA. One of the support activities, for example, will be to help the Chambers to collect information, and prepare and distribute investment and trade promotion literature and brochures.

Support to investment promotion activities will also be provided by having the Project Secretariat access low-cost U.S. Government services and resources that are available to promote U.S. exports and investments overseas. These resources include: the Trade and Development Program (TDP), the Overseas Private Investment Corporation (OPIC), EXIM Bank and the U.S. and Foreign Commercial Service. In addition, the YES Project will buy-in to the AID grant to the International Executive Service Corps (IESC) to obtain assistance from its Trade and Investment Service (TIS). It is proposed that the Project Administrator travel to the U.S. in the first year of the Project to make the necessary contacts and to establish the procedures for accessing these various resources.

3. Enterprise Productivity

The core activity under this module will involve establishing and operating a Business Management Institute (BMI) which will be located in facilities provided by the Sana'a Chamber of Commerce and Industry (see Annex E-3 for a detailed report on BMI). The new institute will train managers and potential managers in the private sector in basic management skills such as accounting, finance, personnel management, plant management, and quality control. The BMI will follow a demand-driven approach, tailoring training programs to fit the demands of the private business market. Since BMI will be charging fees for its courses; only offerings for which there is a proven demand will be retained.

Most of the offerings of the BMI will be short courses of approximately one to two weeks duration. Certificates will be

awarded to enrollees that complete the various programs. In addition to core courses, a series of one-day management seminars will be held for top managers. These seminars will focus on current affairs of topical interest to the business community in Yemen.

The teaching approach will rely heavily on participatory training methods using case studies, visual aids and other guides. This approach has proven to be highly successful in other developing countries in ensuring a maximum level of interest and understanding by the trainees.

In addition to providing training to entrepreneurs and managers, training of trainers (TOT) will be provided to develop the skills of the Yemeni and other staff at the BMI.

While training will be a major activity of this module, this module will also include other support activities to enhance enterprise productivity in Yemen. For example, a buy-in will be made to the AID/Washington grant to IESC to permit it to expand its successful, existing program of providing firm-level technical assistance to Yemeni firms. Another activity of this module will involve the services of the Center for Private Enterprise (CIPE) to assist the chambers of commerce and industry develop programs and expand their capabilities to support their memberships.

Other US resources and PVOs will be tapped to obtain short-term assistance and training in specialized areas. These programs include: Entrepreneurs International, Project SUSTAIN, and VITA among others.

C. Organizational Management Approach

The organizational approach adopted for implementation of the YES Project is to rely primarily on the USAID for management and administration services, rather than to award a master contract for technical assistance and training services. Section V. B. Project Management describes the assignment of technical and management responsibilities within the project organization. Essentially, the organization provides that technical direction for the Project will come from an Advisory Committee comprised of an equal number of members from the public and private sectors. It is anticipated that the public sector members of the Committee will be at the Deputy Minister, or equivalent level, and will have the requisite authority to speak for and commit their ministry on most issues. Private sector members of the Committee will be selected by the Federation of Chambers of Commerce and Industry and the individual chambers. The USAID Project Officer to be designated by the General Development Office will also participate on the Advisory Committee as an ex-officio member.

Management support and contract administration activities will be carried out by the Project Secretariat under the direction of an experienced FSN direct-hire, who will be designated as the Project Administrator. The Project Secretariate (PS), in addition to providing support to the activities of the other two modules, will manage the funding allocated to the Policy Assistance module and will be responsible directly for the contract and technical activities related to policy assistance and supporting study efforts.

Day-to-day management and technical direction of the activities of the project modules will be carried out by two long-term advisors recruited directly by the USAID. One advisor will be assigned to work with the Investment Promotion Authority, the other will serve as Director of the Business Management Institute. Policy assistance activities will be managed by the Project Secretariat under the general guidance provided by the Advisory Committee and the USAID Project Officer.


Two significant advantages are offered by this approach to management of the Project. For one, it puts responsibility for design and performance of the Project activities in the hands of the principal beneficiaries of the activities. This increases the likelihood that the sponsors, i.e., the members of the Advisory Committee, will "buy-in" to the activity and take an active role in following up on the various actions suggested or required by the activity. The other advantage offered by this approach is lower implementation cost. By relying on USAID management for a significant portion of the services and commodity procurement activities, the Project avoids the need for contractor home office and field management support personnel and eliminates the overhead and G&A costs generally associated with these activities.

D. Project Inputs

Inputs to the YES Project will consist primarily of technical and related support services financed by A.I.D. and local counterpart funding contributions. Technical and support services will be provided by USAID to the Investment Promotion Authority and the Business Management Institute and to support policy implementation or other appropriate activities requested by the Advisory Committee. The Project inputs, by module, include the following:

1. Policy Implementation

Assistance in the development of policies that provide a more favorable climate for investment and business operations will be provided to both private and public sector organizations.



a. Private Sector Policy Support

Short-term technical support will be available through the Project to conduct policy studies for high-level government institutions in support of private sector policy reforms. The institutions targeted for these policy study inputs include the Ministry of Economy, Supply and Trade, the Central Planning Organization, the Central Bank and the Ministry of Finance.

c. Investment Promotion Authority

Assistance will be provided to the IPA under this module to assist it initially in conducting policy research and analysis and, eventually, to assist it in developing its own capabilities in these areas.

b. The Federation and the Individual Chambers of Commerce and Industry

Technical assistance and training will be provided to the Federation and the individual chambers through the U.S. Chamber of Commerce's Center for International Private Enterprise (CIPE), and other sources of short-term assistance. This assistance will be targeted primarily at strengthening the capacities of the chambers to conduct policy analysis and achieve resolution of issues and other concerns of their members.

2. Trade and Investment Promotion

Assistance in expanding the capacities of public and private sector organizations in Yemen to promote trade and investment and to provide the services necessary to realize potential opportunities will take several forms.

a. Investment Promotion Authority

Short and long-term technical assistance will be provided to the new Investment Promotion Authority to assist in the institutional development of the new agency. Assistance in this category will include help in developing the functional areas of information services, investor services and promotion. Inputs under this module will include partial support of exposure tours to other investment promotion centers in developing countries. Computer

equipment and software will be provided under this module for use in maintaining information of use to investors and for tracking and following up on investor assistance activities.

b. Collaboration with U.S. Government Agencies

Funding will be available in the project to finance buy-ins and make use of other mechanisms to access existing contracts and U.S. Government programs and services which will help expand U.S.-Yemen trading and investment opportunities. Some of the USG and private sector programs to be accessed include TDP, OPIC, Department of Commerce, the Trade and Investment Service of IESC others.

c. Support to Business Associations

Assistance will be provided under the project to help fund investment promotion support activities that will be undertaken by the Federation and Chambers. Funding would be available to cover the costs of preparing and printing basic investment and trade promotion literature.

3. Enterprise Productivity

Inputs provided by the YES Project to increase the productivity of enterprises in Yemen will be channelled primarily through the Business Management Institute, but will include assistance other than just training.

a. Business Management Institute

Long-term and short-term technical advisors will be provided to design and conduct training, as well as train Yemeni trainers in various business management courses, and train Yemeni trainers at the Management Training Center. Funding will also be provided to purchase classroom furnishings and audio-visual equipment for use at the facilities being provided by the Sana'a CCI. Technical support will also be provided to the Institute to assist in enrollment, record keeping and library services. Through a cooperative arrangement with the Peace

Corps, two or three volunteers will be assigned to the Small Scale Industries Institute (SSII) to be established as part of the BMI. The PCVs will provide technical assistance primarily to owners and workers in small and micro-enterprises.

b. International Executive Service Corps (IESC)

A buy-in to the AID/Washington grant to the IESC/Yemen will be provided to permit an increase in the level of IESC technical assistance available to Yemeni firms. The "buy-in" will be exercised on an incremental basis to respond to the expected increased demand for this assistance in out years of the Project.

c. Other Technical Support Mechanisms

Funding will be provided to cover travel and short-term training costs for courses conducted in the U.S. and other countries though the life of the project. This training will utilize the services provided by the Office of International Training, Entrepreneurs International, Project SUSTAIN, and the IESC.

4. Advisory Committee and Project Secretariat Support

Funding will be provided to cover technical support services provided to the Project Secretariat and to cover administrative, publication and other related costs incurred by the Advisory Committee. Technical services under this module will also include obtaining assistance in setting up and maintaining a data base for tracking project performance and supporting project management activities.

E. Project Outputs

The Project has been developed to generate a series of concrete and useful outputs which individually and collectively will increase the number and productivity of Yemeni firms. The main Project outputs are:

1. Policy Analysis and Formulation

- a. A series of actionable policy analyses and position papers directly relating to opportunities and constraints facing Yemeni firms.

- b. A legal regime conducive to private sector investment and growth.

2. Trade and Investment Promotion

- a. A self-sustained mechanism for promoting investment opportunities in Yemen -- the Yemen Investment Promotion Authority.
- b. A series of coordinated activities to disseminate information and to assist Yemeni firms to engage in productive investments.

3. Enterprise Productivity

- a. A self-sustained training center (the Business Management Institute) which will tackle one of Yemen's fundamental problems -- the lack of basic managerial and business skills.
- b. Better-trained personnel in private sector firms contributing to improved productivity, higher output, and increased employment.

F. Indicators of Performance

The Project's performance and success can be measured according to a series of independently verifiable indicators as shown below. The baseline indicators against which the Project performance will be measured should be established during the first year of the YES Project.

However, at the time of the design of the Project Paper it was evident, from an initial assessment, that baseline Project indicators would all be starting at extremely low levels. For example, as an indicative baseline indicator of the flows of new foreign investment into Yemen, the World Bank data show that net foreign direct investment in Yemen averaged only \$5.6 million per year from 1985 to 1988. In 1987, the official recorded net inflow was only \$2.0 million, and in 1988 the net inflow was zero. Another indicative baseline indicator would be the ranking of Y.A.R.'s investment climate in recent international surveys such as the 1988 survey "Measure of the Investment Climate for International Business," September 1988, by Frost and Sullivan. It ranked Yemen 91st out of 94 countries surveyed world-wide. These and other baseline indicators -- such as the number of investments approved -- will be confirmed during the first year of the Project.

Indicators that are appropriate measures of the YES Project's contribution to improving the investment climate and business activity include the following:

- the number of inquiries and initial contacts regarding potential trade or investment opportunities in Yemen are expected to increase as a direct result of policy reforms and promotional activities carried out/under YES. A baseline for current levels of inquiries by foreigners and Yemeni nationals will be established during the first year of the Project;
- an increase in inquiries stimulated by YES is expected to result in a rise in the number of applications for investment, as well as in the number of applications approved and projects started;
- domestic private investment and foreign direct investment levels should increase as a result of YES's success in attracting the interest of investors;
- the increased levels of new investment in the manufacturing sector are expected to lead to an increase in the contribution of the sector to the nation's value-added production and to revenues earned by firms; and
- the increase in number of well-trained Yemeni managers as a result of the Enterprise Productivity Component will be an indicator of the YES impact on firm-level efficiency and productivity.

In addition to these quantifiable and verifiable indicators, the Project will also achieve the following:

- a series of policy recommendations to strengthen private sector participation in trade and investment opportunities;
- a demonstrable set of cooperative working relationships among Yemeni private and public organizations and U.S. agencies interested in trade and investment, as measured by the establishment of the Advisory Committee and by specific cases of collaborative actions; and
- the success of YES in the area of investment policy reform is expected to result in a marked improvement in the ranking of Yemen as an investment site.

G. End of Project Status

The Project is designed to contribute directly to the following end of project status:

- Yemeni trade and investment promotion mechanisms will have been fully defined, implemented, tested and demonstrated to stimulate investment and trade opportunities in Yemen;
- foreign direct investment in Yemen will rise from about \$5.6 million per year (average 1986-1988) to \$25 million (current terms) per year by 1997. This represents an average nominal increase of about 30 percent per annum, and a real increase of about 25 percent per year in net foreign direct investment;
- gross domestic private investment will have risen from 7 percent of GDP in 1988 to 12 percent of GDP in 1997;
- value-added in the manufacturing sector will rise from 11 percent of GDP in 1988 to 18 percent of GDP in 1997. This represents about a 10 percent real increase per annum in value-added from the manufacturing sector;
- 70 medium to large firms and 200 small firms will have improved their productivity and profitability through technical assistance and training by the end of the Project. About 900 members of the private sector will have benefited from training over the life of the Project; and
- a total of 25 or more policy analyses on concrete business problems will have been completed and disseminated widely to private and public sector policymakers by the end of the Project. Of this total, at least 12 of these analyses will have resulted in specific policy reforms implemented by government authorities.

IV. SUMMARY OF FEASIBILITY ANALYSIS

The analyses supporting the technical and institutional feasibility of the YES Project are presented in Annexes E and F. They are summarized in this chapter and presented with the economic, financial and social analyses.

A. Technical Analysis

The analyses of the economic and policy setting for private enterprise development presented in Annex E are supported by an unusually rich set of recent studies. Most of these were conducted by or on behalf of USAID/Yemen, and cover such diverse areas as macroeconomic development, agricultural trends, investment policies, the financial sector, workers' remittances and training needs. These studies are supplemented by analyses carried out by the U.S. Embassy in Yemen, the U.S. Department of Commerce, the World Bank, the International Monetary Fund and others. The constraints on private sector development in Yemen, therefore, are well-known.

Review of these studies, and the design team's own analysis of conditions in Yemen did not reveal any unique or totally insurmountable obstacles to private enterprise development. All of the conditions noted have been encountered, albeit to a lesser extent in most instances, by AID and have responded well to properly designed development assistance efforts. The remaining question, therefore, regarding the technical feasibility of the YES Project is whether the types of interventions proposed are appropriate and consistent with the nature of the constraints. While they do not provide any guarantees as to the effectiveness or success of the YES Project, the experiences of AID and other donor institutions in addressing constraints, similar to those encountered in Yemen, in other countries provide good evidence that the Project approach is appropriate and feasible. Some examples of the experiences of other countries in the assistance areas being addressed by the YES Project are presented below.

1. Policy Assistance

Some of the best examples of the effectiveness of policy reform and the benefits of providing assistance in analysis and formulation of policies are found in Central and Latin America. Chile is one of the best examples of the positive effects that can be achieved through liberalization of policies affecting private enterprise, but Costa Rica and Ecuador also provide good, even if less dramatic, examples as well. In each of these instances AID was a party to the policy dialogue and provided assistance in the form of studies and experts that were useful to the governments as they considered various courses of action.

2. Investment Promotion

Among the bilateral and international development assistance agencies, AID is the most experienced in providing support to trade and investment promotion activities. As in the case of the YES Project, the assistance has involved both organizational management as well as support and guidance in the development of specific promotional functions and services. Examples of particularly effective investment promotion agencies that were assisted by AID include the agencies in the Dominican Republic, Thailand and Panama.

3. Business Management Training

With a few exceptions, AID's experience in providing basic business management training to entrepreneurs and managers of small and medium-size firms is relatively recent. Prior programs tended to concentrate on providing management training to public sector officials, often through long-term courses conducted in the U.S. One of the best-known exceptions to the recent emphasis on business management training is the Jordan Institute of Management (JIM) in Amman, which was established more than 10 years ago with assistance provided by AID. More recent examples of business advisory centers that have been organized with AID support include institutions in Sri Lanka and Bangladesh, and two that are being considered in Morocco and Tunisia. Only the Sri Lanka center has been in operation long enough (3-4 years) to provide a basis for judging the effectiveness of this approach, but by all accounts the services provided, both training and technical assistance, enjoy considerable demand and appear to be highly effective.

The sum total of these experiences suggests that the approach being taken by the YES Project to promote private enterprise development in Yemen is both appropriate and feasible.

B. Economic Analysis

Projects of the nature of YES are not as well-suited to the analysis of economic returns as projects that produce outputs that are more directly linked to project inputs and more easily measured, e.g., increased crop yields or reduced mortality rates. The economic rate of return for the YES Project will be determined by outcomes that are once removed from the interventions of the Project. For example, the increased employment and industrial output that results from new investments in Yemen can only be attributed indirectly to the YES Project.

If the Project achieves its end-of-project outputs, the benefit stream will be quite large. For example, the Project is expected to help generate increases in domestic private investment of 11 percent per year, and increases in foreign investment of 25 percent per year over the life of the Project. Value-added in the manufacturing sector is expected to rise from 12 percent of GDP in 1988 to 18 percent by the end of the Project. Significant increases in employment would also result. Direct Project costs include technical assistance, training, project management and moderate amounts of equipment. These costs are moderate compared with the potential levels of benefits.

Inputs provided by the YES Project are essential to achieving the higher levels of investment and resulting outputs of goods. However, it would be unrealistic to attribute all of the incremental benefit stream to the YES Project inputs. For example, a majority of the incremental costs leading directly to the benefits stream will be private sector investment costs. Estimates of the exact magnitude of these costs resulting from the Project are difficult to make and would, therefore, be speculative. Consequently the calculation of an ERR for the Project would not be very meaningful. However, economic analysis and the experiences of other countries suggest that if the Project is implemented properly, the economic rate of return should be very high, in the order of 20 percent.

The economic impact of YES is expected to increase gradually over the life of the Project. Given the lack of knowledge in the international business community about Yemen, the country's limited natural resource base, and the previous absence of a clear set of rules regarding investment procedures, all suggest that foreign investment will only develop gradually in Yemen. Accordingly, although the impact of YES should be clearly evident at the end of the Project, the impact will be more significant in the years following EOP, as the benefits of removing policy and other barriers are realized, and knowledge of Yemen becomes more widespread.

Moreover, the experiences of other countries with similar types of institutions and programs -- even the most successful countries such as the Asian NICs, Mauritius, Costa Rica, and the Dominican Republic -- indicate that it is usually five years or more after investment promotion institutions and strategies are launched before rapid expansion of investments and employment begin. Investment promotion strategies have a long gestation period!

Most of the successful countries mentioned above concentrated first on making the investment climate attractive for their own investors before attracting large numbers of foreign investors.

This approach could serve as a useful model for Yemen, where the level of domestic capital appears to be high, although is not being mobilized into productive local investments. This capital could be invested in activities which generate more value-added than trade and real estate (currently the preferred sectors of investment), if the policy environment becomes more conducive to local investment. This in turn would give foreign investors more confidence in the investment climate in Yemen.

In addition to the economic analysis indicating that the long-term net benefits of the Project are likely to be strongly positive, the reliance on a "least cost" approach to implementation results in a more favorable cost-benefit ratio than might have been achieved through any other approach. As part of this implementation strategy, the YES Project will rely on buy-ins to AID/W-funded contracts to the extent possible in order to leverage YES Project funds. Reliance on low-cost, but effective voluntary organizations such as IESC, Peace Corps, and VITA is also an important aspect of the implementation strategy. Moreover, many of the U.S. Government services that will be accessed by the Project, such as those provided by the Department of Commerce, TDP, OPIC, and EXIM Bank are available at very low or no cost to the Project. Finally, some YES activities, such as BMI training and IESC technical assistance, will be provided on a fee basis which reduces the cost to the YES Project of providing these services and expands the number of beneficiaries which can be reached with Project resources.

It is assumed in the analysis that the various approaches considered for implementing YES would yield similar outputs and benefits. Therefore, not only is the approach taken by YES the least-cost one, but it has the highest benefit-cost ratio as well.

C. Financial Analysis

The analysis of the financial feasibility of the YES Project focused on determining the management configuration that would yield the least cost of implementation. Two alternatives were considered: 1) competitive award of a master technical assistance contract to a for-profit or a non-profit organization; and 2) USAID management of the service and commodity procurement.

1. Assumptions

The assumptions that were applied in the analysis are summarized below:

- Master technical assistance contract: To estimate the differential cost of relying on a contractor to provide the majority of procurement and technical

assistance services, it was assumed that 33 percent of the time of one long-term advisor would be devoted to program management activities. The remainder of the Team Leader's time would be spent in performing technical activities. It was also assumed that the home office of the contractor would provide the equivalent of 0.25 person-year annually in backstopping and other support activities. Finally, it was assumed that a G&A rate of 20% would be applied by the prime contractor to all subcontract and individual technical consultant costs.

- USAID management of project: In estimating the cost of USAID management of the Project contracting activities, it was assumed that the activity would be staffed by two Yemeni professional staff members. No assumptions were made about support staff, i.e., administrative personnel and drivers, in that the number and labor cost would be the same under both alternatives.
- Other Direct Costs: Other Direct Costs (ODCs) were assumed to be the same under both alternatives.

2. Comparison of Estimated Costs

The estimated costs for the elements that are specific to each of the two alternative approaches to project management are presented below:

- Master technical assistance contract:

Professional Staff Costs

Team Leader - 33% x \$180,000 (Burdened rate) = \$ 60,000

Home Office Support - 25% x \$120,000 (Burdened rate) = \$ 30,000

G&A Costs:

20% on est. \$2.5 million in S-T Services = \$500,000 over LOP or annually = \$ 50,000

Fixed Fee:

6% (est.) on \$10.0 million contract = \$600,000 over LOP or annually = \$ 60,000

Total Estimated Annual Differential Cost = \$200,000

- USAID management of project:

Professional Staff Costs

2 Professional Staff @ \$25,000 each	= \$ 50,000
Fringe and allowance costs @ 30% of labor cost	= \$ 15,000
USAID personnel support costs - 25% person-year @ \$200,000	= \$ 50,000
Total Estimated Annual Differential Cost	= \$115,000

The analysis indicates that reliance on USAID-based management of the YES Project will yield an annual saving of approximately \$85,000 per year, or \$850,000 over the LOP.

D. Social Soundness Analysis and Plan

The YES Project is consonant with the YARG social and economic program, and over the long term, will tackle some of the most critical socio-economic problems of Yemen's people.

Yemen is still in its early stages of nation-building. The process will involve integrating into one nation some 30 major tribes, two large tribal confederations, and up to 60,000 separate and often inaccessible villages dispersed over a mountainous terrain. Yemen has had minimal human and financial resources to effect integration, provide needed physical infrastructure, and create the social and economic institutions upon which the nation can build. Key institutions and linkages are deficient -- for example, market information, the performance of financial institutions, and forward and backward linkages among private firms. Socio-cultural influences also reflect themselves in the distrust private firms have of one another and of foreigners.

Although Yemen's per capita income of about \$580 places it among lower-middle income developing countries, Yemen's health and social indicators place it among the least developed in the world. For example life expectancy at birth is only 46 years, infant mortality runs at 151 per thousand births, and the nation's literacy rate is only 20 percent. These indicators suggest that broad-based economic growth will be needed to confront the major socio-economic challenges facing Yemen.

The major influences on economic development lie in the policy environment that is shaped by public and private institutions and in the skills that help entrepreneurs become efficient and

successful. This is not to deny the importance of the social significance of family firms, tribes and settlement patterns, nor the cultural importance of religion, modernizing elites and traditional law.

The YES Project will primarily benefit those entrepreneurs who take risks, create employment, apply good management skills and increase productivity and profits. Although Yemen is a country of entrepreneurs, the vast majority of them are small businessmen engaged in trade. Approximately 20 families have developed successful larger trading companies. These companies are now starting to extend their operations into manufacturing and service sectors. There is some risk that the YES project benefits could be captured primarily by these larger firms, thereby contributing further to socio-economic and political polarization. To overcome this risk, YES incorporates distributional concerns into its design strategy by: (i) targeting small firms for business training; (ii) recommending that policy incentives should be scale-neutral; and (iii) and strengthening the regional Chambers of Commerce.

Several YES activities have already been introduced and tested in Yemen on smaller scales. These include legal and regulatory support to MEST on the drafting of the Investment Law, Project SUSTAIN training to private firms organized through the private sector, IESC assistance to private firms, and policy dialogue sessions with CPO, MEST, and the Central Bank. These successful activities to date demonstrate that YES is culturally and socially feasible. Moreover, provided the Project is well implemented and the economic objectives (see Section IV.B) are achieved, the Project will be expected to result in increased levels of employment and household income. The net effect of such developments, both in the microeconomic and social domains, will be to raise standards of living and to improve social structures.

E. Women in Development

Yemeni women have only recently begun to leave non-traditional home and agriculturally-related occupational fields. Women traders and shopkeepers are found in certain areas in the Tihama and the southern part of the country. Educational levels of women are generally much lower than for men, a handicap that reinforces other social and cultural constraints on social freedoms and job opportunities. However, an increasing number of women are completing secondary school and Sana'a University. The Government is the biggest employer of these women graduates, whereas private sector firms often hire less educated women for menial jobs. This occupational stratification could change, however. Private firms are becoming more modern and are demanding higher-level technical and office staff, while more and more educated women are entering the workforce.

The YES Project will target women's associations in the Enterprise Productivity Component. Courses on topics such as "Starting a New Business" would be offered to women's groups in an effort to meet their needs for skills enhancement. Demand surveys will be designed to ensure that training programs are tailored to meet their needs.

USAID/Yemen is about to implement a separate WID project which will assist regional women's associations to: (i) deliver training in secretarial and office administration skills; (ii) help to build career paths for women to rise into higher-level positions; and (iii) create self-employment and other income generating activities for relatively less educated urban women.

F. Environmental Analysis

The Project is based on the provision of technical assistance and training. Therefore, there is no reason to expect any negative environmental impact to result from Project implementation. Consequently during the PID review it was determined that the Project is exempt from environmental analysis requirements in accordance with the provisions of 22 CFR 216 (C).

V. IMPLEMENTATION PLAN

A. Roles and Responsibilities

1. Implementing Agency

The Ministry of Economy, Supply and Trade (MEST) will be the YARG organization primarily responsible for implementation of the YES Project. At the working level, the Ministry's responsibilities for oversight and technical direction of the Project will be carried out through an Advisory Committee chaired in alternate years by a representative appointed by the Ministry. The Chairman will be selected in the other years by the private sector members.

2. Operational Responsibilities

Two of the three modules of the Project --Investment Promotion and Enterprise Productivity --will be headed by a Functional Specialist. The Investment Promotion specialist will be recruited and contracted by the USAID under a Personal Services Contract (PSC). The Chief of Party for the regional contractor providing training services to the Business Management Institute will serve as the specialist for the Enterprise Productivity module. Responsibilities of the Functional Specialists will include identifying sources of technical assistance or training services, making the initial inquiries and submitting candidates (TA) to the Project Officer for approval or, in the case of the training contractor, making the necessary arrangements for the participation of guest lecturers and other short-term trainers. Operational responsibilities for each of the three modules of the Project will be carried out as follows:

a. Policy Implementation:

Assistance activities related to analysis, revision or implementation of policies affecting private sector activities will be managed by the Project Secretariat. The YES Project Advisory Committee will approve a general agenda for the studies and issues to be addressed each year as part of the Annual Work Plan submitted by the Project Secretariat. The YARG members of the Committee will arrange for coordination of policy activities with YARG ministries not represented on the Committee. Members representing the Federation and individual Chambers of Commerce and Industry will assist in obtaining the cooperation of their members to support policy research and other activities directed by the Committee.

b. Trade and Investment Promotion

The Investment Promotion Authority, when it is operational, will include a unit supported by the YES Project. This unit will be responsible for providing internal consulting assistance in the organization, as well as management and marketing of the IPA's services. This unit will also arrange for the delivery of training to IPA staff and will obtain short-term specialized assistance for the IPA on an as-needed basis. Assistance from the long-term advisor and short-term consultants will also be available to the Federation and individual chambers of commerce and industry.

c. Enterprise Productivity

Operational responsibilities for improvement in management and production efficiency of Yemeni firms, particularly small and medium-sized firms, fall into three categories. Training of entrepreneurs and managers will be carried out by the Business Management Institute (BMI) supported jointly by Federation and the Chambers of Commerce and Industry in Sana'a, Taiz and Hodeidah. Responsibility for providing business and technical training and assistance to small scale and micro-enterprises will be assumed by the Small Scale Industries Institute (SSII) through assistance provided by the Peace Corps. The IESC, VITA and other similar organizations will have responsibility for delivering technical and business advisory services in response to specific requests from clients.

3. YARG Responsibilities

The YARG will be responsible for providing appropriate representatives to the YES Project Advisory Committee and for appointing individual project managers to the Policy Implementation and Investment Promotion modules of the Project. In addition, the YARG will be responsible for providing counterpart and support staff to work with the Functional Specialists assigned to each of these units.

4. Responsibilities of the Chambers of Commerce

The Federation of Yemen Chambers of Commerce and Industry and the individual chamber members will be responsible for providing general support to the Enterprise Productivity module. This will include supporting the training of Yemeni entrepreneurs and managers and helping local firms increase production efficiency by promoting the training services

offered by the BMI and the technical advisory services available from IESC, VITA and other similar organizations. The Sana'a Chamber of Commerce and Industry will also be responsible for providing facilities and office space for use by the BMI in conducting training courses and programs.

5. USAID Responsibilities

USAID/Yemen will appoint a Project Officer from the General Development Office to carry out the USAID's operational responsibilities for the YES Project. The Project Officer, supported by the Project Secretariat, will provide technical direction and general oversight in the procurement of technical assistance, training services and commodities required by the Policy Assistance and Investment Promotion modules. The Project Officer will assure that adequate support is provided to all implementation activities, and, with the Project Secretariat, will monitor the financial and technical status of the Project.

The USAID Director, or his designee, will serve as an ex-officio member and provide representation, along with the Project Officer, on the Project Advisory Committee.

Within the USAID, the Project Officer will be supported by a Project Committee consisting of representatives of the Program, Controller's and Contracting Offices. The Committee will review the financial and technical status of the Project semi-annually, and provide support and advice to the Project Officer in the resolution of technical or policy issues and problems that might arise in the implementation of the Project.

6. U.S. Peace Corps

Subject to the approval of budget authority, the U.S. Peace Corps will be responsible for providing two or three Peace Corps Volunteers to provide technical assistance services through the Small Scale Industries Institute.

B. Project Management

The project management structure for the YES Project is shown in the organization chart (Figure V-1) on the following page. The composition and responsibilities of each of the major organizational modules are described below.

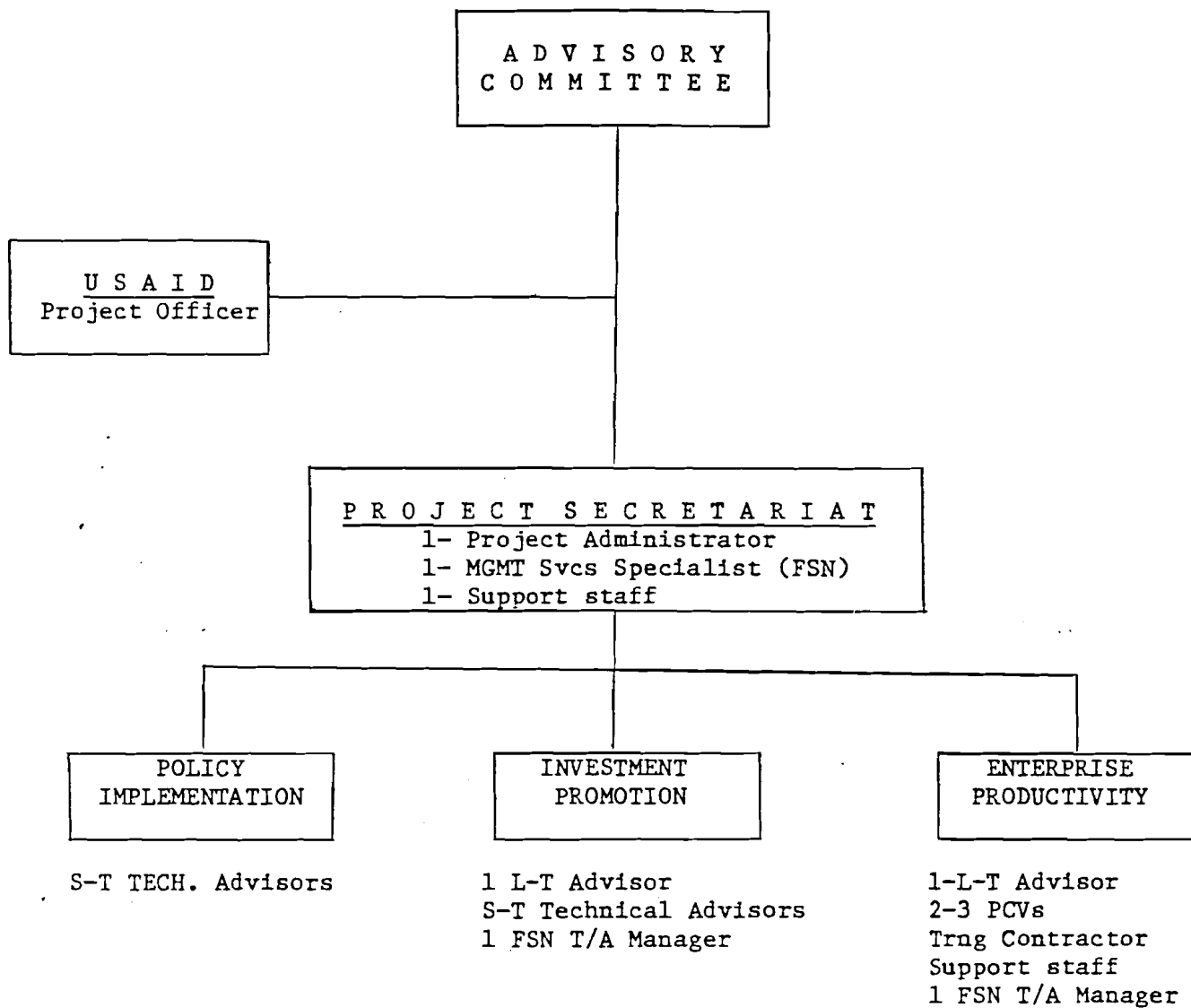
1. Advisory Committee

The Advisory Committee will provide technical direction, coordination of activities among project modules and general oversight of the performance and accomplishments of the Project. The Committee will meet not less frequently than quarterly to review project activities and progress against the

YES PROJECT ORGANIZATION

FIGURE V-1

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implementation schedule and annual budget submitted in the current Annual Work Plan. The Advisory Committee will review and approve the Annual Work Plan and budget submitted not later than August 31 of each year by the Project Secretariat.

The members of the Advisory Committee will include representatives of the following organizations:

- Ministry of Economy, Supply and Trade;
- Central Planning Office;
- Investment Promotion Authority;
- Federation of Chambers of Commerce and Industry;
- Sana'a Chamber of Commerce and Industry;
- Taiz Chamber of Commerce and Industry;
- Hodeidah Chamber of Commerce and Industry;
- Regional Chambers of Commerce and Industry (2); and
- USAID/Yemen

Chairmanship of the Committee will be rotated annually between a public and private sector representative.

2. Project Secretariat (PS)

The Project Secretariat, under the direction of a Project Administrator, will be responsible for the day-to-day operations of the YES Project. These responsibilities will include monitoring of project activities and progress, technical direction and contract administration for support services provided by institutional and individual technical assistance providers, and preparation and maintenance of financial and other reports required to meet YARG, USAID and Advisory Committee requirements. The PS will also be responsible for preparing, with the guidance of the Advisory Committee, the Annual Work Plan for the Policy Implementation module of the Project. The Functional Specialists assigned to the other two modules will prepare Annual Work Plans for their activities for assembly by the Project Secretariat into one comprehensive plan. This plan will be submitted for review and approval by the Advisory Committee.

The Project Secretariat will be under the direction of the Project Administrator and will receive general oversight and technical support from the the USAID Project Officer. The Project Secretariat will also serve in a facilitating role and

when necessary will carry out various follow-up and general support activities. The Project Secretariat will also assemble the Quarterly Progress Reports and report the status of implementation of the Plan to the Committee on a regularly scheduled basis.

The Project Secretariat will be responsible for carrying out and expediting commodity and services procurement actions required to support the Project. This will include coordinating with organizations such as IESC, CIPE, and the AID/W Office of International Training and other major providers of services to the YES Project as determined by the Functional Specialists in each Project Component and the Advisory Committee.

In addition, the Project Secretariat will be responsible for collecting and maintaining baseline and performance data for use in periodic review of project progress and the interim and final project evaluations. As part of this responsibility, the Secretariat will compile and analyze Yemen economic and other statistical data for use by the Advisory Committee in its planning assessment activities. The MIS Unit will also maintain financial data for use in generating quarterly cost vs. budget comparisons and other ad hoc reports that might be requested by the Advisory Committee.

3. Functional Specialists

The Functional Specialists will provide technical direction and management of the Enterprise Productivity and Trade and Investment Promotion modules of the Project. Guidance and general oversight of technical performance and activities within each module will be provided by the Advisory Committee. Supervision and support related to management and administration of the activities of each project module will be provided by the Project Secretariat.

The long-term advisor assigned to the Enterprise Productivity module will be responsible primarily for training of Yemeni trainers and overall supervision and direction of the training program at the Business Management Institute. Responsibility for delivery of technical assistance to private sector clients and the chambers of commerce and industry from sources such as IESC, VITA and CIPE will be assigned to a direct hire FSN. Each Functional Specialist will prepare a draft Annual Work Plan describing the activities, along with the proposed schedule and budget using the computer-based format specified by USAID, that will be undertaken in the coming year. The Annual Work Plans will reflect and support the purposes of the respective project modules, and will detail the specific implementation targets and actions for the coming year. The Annual Work Plans will also describe the progress achieved over the past year, along with any problems that were encountered and the corrective

actions that were taken or that are required. The draft Work Plans will be integrated into one comprehensive Annual Work Plan by the Project Secretariat and submitted for review by the Advisory Committee.

The Functional Specialists will also be responsible for submitting progress and other information periodically in a format specified by the Project Secretariat.

C. Procurement Plan and Contracting Arrangements

Although USAID/Yemen does not plan to award a master contract to obtain all the services and commodities required by the YES Project, it will obtain the services of an institutional contractor, through a competitive procurement, to provide training and related technical assistance and commodities in support of the Business Management Institute. USAID/Yemen will be responsible for procurement of all other services and commodities, and for the management of all AID-financed project costs within the guidelines specified in the Annual Work Plans and agreed to by the Advisory Committee, USAID and the appropriate YARG agencies. Procurement activities will include purchase of commodities and shipping services, acquiring technical assistance and training services from individuals and institutions.

1. Commodities

In general, services and commodities will be procured from Geographic Code 935 countries (United States and Yemen). The Project has waiver authority to obtain vehicles from other than Geographic Code 000 countries because of the unavailability of spare parts and repair facilities for U.S. vehicles in Yemen. Additional waivers might be required in the out-years of the project for replacement or replenishment of spare parts. It will also be necessary to seek waivers for purchase of computers, photocopy equipment, audio-visual equipment and related equipment because U.S. manufactured equipment will not operate on the 220 volt, 50 cycle power provided in Yemen. The institutional training contractor will be responsible for purchasing the computers, audio-visual and other training equipment required by the Business Management Institute.

The Project has received a waiver to permit ocean transport of commodities on non-U.S. flag carriers. There are no U.S. flag carriers that call at Hodeidah, Yemen's only port city.

Expendable commodities such as office supplies will be purchased locally and through the USAID's Central Contracting Service. The value of commodities purchased locally is not expected to exceed 10 percent of the total local costs financed by AID.

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2. Technical Assistance and Training Services

Because of the diversity of services required and the importance of being able to respond to changes in the types of assistance required as progress is achieved in private sector development in Yemen, it was determined that the traditional approach of obtaining technical assistance and training services through a competitive procurement and award of one master contract would not be appropriate for the YES Project. In addition to limiting the array of services that could be provided to only those offered by the institutions comprising the prime contractor's team, the master contract approach would be more costly because of the additional layer of General & Administrative expense that is typically applied by the prime contractor to services provided by subcontractor members of the team.

Under the YES Project approach to implementation, a contract will be awarded on a competitive basis to an institutional contractor to provide training and related services for operation of the Business Management Institute. All other institutional and individual services, along with commodities required for these services, will be procured directly by the USAID. This approach reduces the length of time required to procure services and will enable the YES Project to go operational at a much earlier date. An additional consideration is that the percent of contract services provided by Grey Amendment firms is likely to be higher under this approach in that a larger number of these firms can be utilized, rather than limiting Gray Amendment participation to the firm included in the master contractor's team.

A waiver of competitive procurement has been approved by AID/W to permit award of a contract to the Center for International Private Enterprise (CIPE). This organization will work directly with the Federation of Yemen Chambers of Commerce and Industry and the Sana'a, Taiz and Hodeidah chambers to strengthen these organizations and improve the range and quality of services provided to members. In addition, the YES Project will "buy-in" to the AID/W grant and the USAID/Yemen grant to the IESC to gain access to the Trade and Investment Service (TIS) and to increase the level of effort of technical advisory services that can be provided to Yemeni enterprises.

Procurement of services and commodities outside of those provided by the institutional training contractor will be managed by the Project Secretariat. The technical assistance personnel requirements that are currently envisioned for the Project (it is likely that these requirements will have to be adjusted over the life of the project) are summarized below:

Policy Assistance Module

Short-term technical assistance	48 person-months
Long-term local-hire (admin./drivers)	134 person-months
Short-term local hire.....	11 person-months

Investment Promotion Module

Long-term advisor (PSC)	48 person-months
Short-term technical assistance	52 person-months
Long-term local hire	68 person-months
Short-term local hire	11 person-months

Enterprise Productivity Module

Long-term advisor (Instit. Contractor)	48 person-months
Direct-hire FSN	68 person-months
Short-term technical assistance	230 person-months
Long-term local hire	378 person-months
Short-term local hire	11 person-months

In addition the Small Scale Industries Institute will require 2-3 U.S. PCVs 150 person-months

Project Secretariat Module

Direct-Hire FSNs (2)	160 person-months
Long-term local hires	202 person-months
Short-term local hires	11 person-months

It is anticipated that several of the long-term and short-term positions (in addition to the local-hire positions) will be filled by Arab speakers from other countries in the region.

3. Summary of Procurement Plan and Method of Payment

Although a significant portion of project expenses will be channelled through technical assistance contracts with institutional contractors, e.g., training contractor, CIPE, some project support (both goods and services) will be managed directly by USAID. To reduce the administrative burden on the USAID, an initial PIO/C including all of the commodities required for approximately the first year of implementation of the Project will be issued as soon as possible after execution of the Project Agreement.

Project expenses will be handled primarily on a disburse-and-reimburse basis, except for grantees which will be on an advance-and-voucher basis. Accounting for disbursements will be handled by the USAID Office of the Controller.

Prior approval of the appropriate project manager for the individual project module concerned will be required for expenditures not anticipated in the relevant Annual Work Plan. Management of the funds will be the responsibility of USAID and grantees. Figure V-2 below shows the assignment of procurement responsibilities.

Figure V-2

Principal Procurement Responsibilities

<u>Good or Service</u>	<u>Responsible Agent</u>	<u>Method of Payment</u>	<u>Approximate Amount</u>
Commodities required: Vehicles Computer equipment Audio-visual equipment Classroom furnishings Office equipment	AID	Direct Reimbursement	\$500,000
Technical Assistance and other project services: Long-term advisors Short-term TA Off-shore training In-country training Other off-shore procurement Other in-country procurement	AID	Direct Reimbursement	\$9,650,000
Grant Amendments (IESC)	AID	Advance-and voucher	\$3,800,000
Additional project goods and services needed to support project	AID	Direct Reimbursement	\$ 350,000
Evaluation and Audit	AID	Direct Reimbursement	\$400,000

D. Implementation Schedule

A preliminary schedule for implementation of the YES Project is shown in Figure V-3 below. This schedule will be refined and adjusted as part of the preparation of the first Annual Work Plan.

Figure V-3

Preliminary Implementation Schedule

<u>Action</u>	<u>Date</u>	<u>Agent(s)</u>
Grant Agreement Signed	8/90	USAID/MEST/CPO
Initial CPs Met	10/90	MEST
PSC Position Advertized	10/90	USAID
Project Secretariat Positions Advertized	10/90	USAID
Training RFP Issued	10/90	USAID
Vehicles Ordered	11/90	USAID
First Advisory Committee Meeting	12/91	USAID
PSC for IPA Selected	2/91	USAID
Training Contractor Selected	2/91	MEST/CCIs
Contract Awarded to CIPE	3/91	USAID
PSC for IPA Arrives	4/91	PSC
First Policy Studies Initiated	6/91	Proj. Sec.
First Short Courses Offered	7/91	Contr.
IPA Initiates Promotional Activities	8/91	IPA/PSC
First Annual Work Plan Due	9/91	PSC/Proj. Sec.
<u>End of FY 1991</u>		
Subsequent Work Plans Due	8/92-98	PSC/Proj. Sec.
Phase One Assessment	3/93	USAID/MEST/PSCs
Interim Evaluation	9/94	USAID/MEST
Phase Two Assessment	4/96	USAID/MEST
End of Project Evaluation	4/98	USAID/MEST
PACD	9/98	USAID/MEST

E. Training Plan

1. Target Groups

Training for entrepreneurs, managers and YARG personnel will be a major activity of the YES Project. The training provided under YES will be closely integrated with the Development Training III (DT III) Project (279-0080). This project has recently been amended to incorporate policy-oriented research and training for key government economic ministries and, therefore, supports the YES Project purposes of improving the climate for business formation and investment in Yemen. For example, short-term training courses in policy analysis and formulation for personnel in the MEST, Investment Promotion Authority and the Federation and individual chambers of commerce and industry will be provided through the DT III Project.

Training provided through the YES Project will be more operationally oriented. It will be directed at increasing the skills and number of management and technical personnel in the private sector to increase the capacity of the sector. The training provided to the major target groups through the coordinated efforts of the the DT III and YES projects will include:

- a. Existing and Prospective Entrepreneurs: Training courses will be provided to increase the business management skills of owners of existing businesses, and to prepare individuals who are planning to start their own business. These courses will be provided through the Business Management Institute and will provide entrepreneurs with training in such areas as: personnel and fiscal management; cost control; marketing; exporting; procurement; and bookkeeping. Most of the courses will be short, ranging from 20 to 50 hours, in recognition of the limited time available to business owners.
- b. Managers and Plant Operators: In-country training and short-term third country training will be provided to managers of various manufacturing and production facilities. The training will be geared to improving the efficiency of plant operations and will address such subjects as: plant management, supervision, and quality control. Training sites will include manufacturing plants as well as the facilities of the Business Management Institute.

- c. Women Business Leaders and Entrepreneurs: One segment of the training program will be targeted at women interested in starting their own businesses or taking managerial positions in existing businesses. Selection of topics and course design will be carried out with the participation of the women's associations in Yemen. Some of the potential topics for this training include: starting a new business, obtaining access to credit, marketing and sales management and procurement. Additional topics will be determined through demand studies and working with women's associations.
- d. Professional Personnel at MEST, IPA and the CCIs: Personnel from YARG and the Federation and individual chambers of commerce and industry will participate in short-term training and seminars related to policy analysis and investment promotion activities. The primary purpose of this training will be to expose YARG and CCI personnel to policies and practices of other countries that have been successful in bringing about increased trade and investment activity and, in general, have promoted private sector growth through governmental initiatives. This training will be provided through a combination of short-term training in the U.S. and third countries, and through courses conducted in Yemen.

2. Training Program and Staff

Development of training programs will be the responsibility of the functional specialist (program director) assigned to the Business Management Institute. In determining course offerings and content, the program director will rely on the advice of the Advisory Committee and his or her own assessments of training requirements and demand. The program director will develop a training plan annually describing the course offerings for the following year.

In-country training will be provided in the three largest cities in Yemen: Sana'a, Taiz and Hodeidah, to make access as easy as possible to participants from several regions. Training facilities in Sana'a will be provided at the Sana'a Chamber of Commerce and Industry as part of the private sector's contribution to the Project. The training staff of the Institute will consist of three permanent personnel recruited locally, guest lecturers and seminar leaders from the faculty at Sana'a University, and short-term specialists and trainers from the U.S. and third countries. The reliance upon the assistance of expatriates in the early years of the Institute will shift to reliance on Yemeni personnel almost exclusively over the life of the project (LOP). This shift in staffing will

be accompanied by greater dependence upon fees for training and seminars to cover costs to assure that the Institute becomes self-sustaining by the end of the Project.

In addition to the formal training program, the Enterprise Productivity module will also provide informal and on-the-job training delivered primarily through the activities of IESC and other short-term technical assistance specialists working with specific firms or industrial sectors.

3. Training Curriculum

The number and content of courses offered by the Institute will be driven by demand as measured periodically by the staff of the Institute and others. However, preliminary analyses of training needs sponsored by USAID/Yemen and the PP design team's assessment (See Technical Annex E-3) suggests that there are as many as 4,000 individuals that are likely candidates for training at the present time. This figure is expected to grow significantly over the LOP. Based upon these figures, the Project can be expected to support 200 or more short in-country courses, in addition to longer term training provided in the U.S. and third countries.

Although the curriculum will be adjusted during the implementation of the program to fit the actual demand, a core curriculum will be offered in the initial start-up period of the Institute. This curriculum will then be adjusted and refined based upon experience. During the start-up period, courses will be offered in fundamental management and behavioral skills, as well as in the basic functional skill areas of accounting, finance, marketing, production and personnel development. Starting in the second year, more specialized courses such as procurement, contract negotiations, cost accounting and management information systems could be introduced. By the third year it is expected that the Institute will have sufficient capacity and experience to target its course offerings in a fairly precise fashion.

F. Cost Estimates and Financial Plan

The YES Project will be funded for nine years starting in FY 1990. Total project costs are estimated at \$20.035 million, of which \$14.705 million will be financed by AID, and \$5.330 will be provided by the YARG and the private sector in Yemen. Table F-1 on the following page shows the source and application of project resources--both financial and in-kind.

Table F-2 shows the estimated costs for each of the major outputs expected from the YES Project.

Table F-3 presents the projected expenditures for the YES Project by fiscal year.

TABLE F-1

SUMMARY COST ESTIMATE AND FINA
(US\$ 000)

SOURCE	AI D FX	Host Country LC**	Total
Technical Assistance - LT	1,645	100	1,745
Technical Assistance - ST	2,870	300	3,170
Training	1,556	3,000	4,556
Technical Support	2,764	1,000	3,764
Commodities	1,553	500	2,053
Indirect Costs	1,235		1,235
Inflation Factor*			0
Contingency/Other	3,077	430	3,507
TOTAL	14,700	5,330	20,030

*Estimated costs include an inflation factor of 4% for the U.S.
and 20% for Yemen.

TABLE F-2
COSTING OF PROJECT OUTPUTS

Project Inputs	Project Outputs			Total
	Policy Implementation	Investment Promotion	Productivity Improvement	
AID Grant:				
Technical Assistance - LT		822	823	1,645
Technical Assistance - ST	870	1,000	1,000	2,870
Training	356	600	600	1,556
Technical Support	1,000	764	1,000	2,764
Commodities	500	500	553	1,553
Indirect Costs	335	450	450	1,235
Contingency/ Other	877	1,100	1,100	3,077
Total AID Financing	3,938	5,236	5,526	14,700
Host Country Contribution:	1,330	2,000	2,000	5,330
Total Financing	5,268	7,236	7,526	20,030

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TABLE F-3

PROJECTION OF EXPENDITURE
(US \$000s)

Fiscal Year	AID	Host Country	Total
1,990	850		850
1,991	1,000	530	1,530
1,992	1,700	400	2,100
1,993	1,550	400	1,950
1,994	1,400	400	1,800
1,995	1,500	600	2,100
1,996	1,800	600	2,400
1,997	1,800	600	2,400
1,998	1,800	800	2,600
1,999	1,300	1,000	2,300
TOTAL	14,700	5,330	20,030

G. Monitoring and Evaluation Plan

1. Data Collection Responsibilities

Responsibility for establishing the baseline data, as well as maintaining country economic and project performance data, will be assigned to the YES Project Secretariat. Baseline information developed for each module will be entered into a database system designed specifically to record and track the performance of the YES Project, as well as the general economic environment in Yemen. Short-term technical assistance will be made available to the Project Secretariat to assist in the design of the database and performance reporting system. The data requirements, data collection methodology and performance reporting system will be specified in a Monitoring and Evaluation Plan prepared by the Project Secretariat by the end of the sixth month of the Project.

Once the design of the monitoring and evaluation system is finalized, the Project Secretariat will provide the Functional Specialists (long-term advisors) heading up the Enterprise Productivity and the Investment Promotion modules with a list baseline data requirements. The Project Secretariat will establish the list for the Policy Implementation module. Each of the Project modules will be required to submit statistical data to the Project Secretariat on a periodic basis in accordance with the reporting requirements established by the database system design. Yemen economic and project performance data will be maintained and updated over the life of the Project by the Secretariat. Data on individuals and enterprise ownership will be disaggregated by sex.

Reports generated by the system will be distributed to USAID, the Advisory Committee and the Functional Specialists. These reports will provide the basis for review of progress toward the purpose and performance targets of the YES Project, as well as an assessment of the relevance of the current project strategy in the light of prevailing conditions and changes in economic and private sector conditions.

2. Evaluation Plan

The YES Project will be the subject of at least two assessments and two external evaluations. The assessments will focus primarily on the effectiveness of the technical assistance delivery mechanism and the extent of the workload created by the extensive reliance on USAID management for implementation.

The first assessment will be conducted not later than month 30 of project implementation. The assessment will examine a number of measures of the effectiveness of the assistance delivery system. These measures will include:

- length of time from receipt of request to arrival of short-term technical advisor;
- length of time required to identify candidates for assistance;
- number of short-term advisors and trainers who participated in the Project from start-up to initiation of assessment;
- quality of performance of short-term advisors and trainers as judged by the Advisory Committee, Functional Specialists and USAID Project Officer; and
- number of outstanding requests.

The assessment will also examine the division of functions between the Project Secretariat and the USAID to determine the reasonableness of the workload imposed upon the two organizations.

Depending upon the outcome of the assessment, the USAID and Advisory Committee might decide:

- existing approach to project implementation is sound and requires no or only minor adjustments;
- an additional long-term advisor should be recruited to serve as Team Leader and to be responsible for consolidating and expediting delivery of short-term technical and training assistance; or
- procurement action should be initiated to acquire the services of a contractor that will assume all responsibility for organizing a team of institutions and individuals to provide the technical and training services required by the Project.

The second assessment will take place at approximately the start of Year 6 of the Project and will assess the effectiveness of the actions taken as a result of the previous assessment findings.

Evaluation of the YES Project will include both a process evaluation and an impact evaluation:

- a. A process evaluation will be conducted at the conclusion of the third year of the Project. The process evaluation will determine the extent to which effective relationships have been established between the YARG and the private sector through the

functioning of the Advisory Committee and other project activities. The evaluation will also examine the functioning of the individual project modules to determine if effective relationships have been forged with the sponsoring organizations. Lastly, the evaluation will review the process for identifying and responding to policy issues to determine if it is effective.

- b. An impact evaluation will be conducted approximately four or five years into the life of the Project. While the evaluation will note progress at the project input and output levels, it will be concerned primarily with determining the extent to which the YES Project goals and purposes are being met. The evaluation will make an important contribution to the design of projects seeking to promote development of the private sector through policy reform and training assistance.

The assessments and evaluations described in this preliminary description of the monitoring and evaluation plan are regarded as the minimum required for effective and responsible implementation of the YES Project. Depending upon progress and events affecting either the project implementation or the Yemen economy, or both, the Advisory Committee and USAID might decide to conduct additional reviews of the Project or specific modules.

3. Principal Assessment and Evaluation Issues

The primary questions to be raised in the assessments and evaluations, the indicators that will be relied upon and the sources of data are outlined below:

a. Goal Level Issues

At the goal level, the evaluations will be concerned with determining if the economy in Yemen has grown as evidenced by an increase in the size and vigor of the private sector. Appropriate questions will include: Has GDP increased? Has the standard of living improved? Has the contribution of the industrial sector to GDP increased? Has there been an increase in the employment base? Has the quality and availability of infrastructure services improved?

- Indicators: GDP; industrial percent of GDP; per capita income; employment base; and employment in the industrial sector.
- Data sources: National economic data and specific data obtained from MEST, and baseline and annual data compiled by Project Secretariat.

b. Purpose Level

At the purpose level, the evaluations will focus on the effectiveness of specific activities undertaken by the Project. Relevant questions will include: Has the number of firms increased? Has the level of net investment increased? Has the enabling environment for business improved? Has industrial output increased?

- Indicators: Number of firms: number and value of recorded new private investment in Yemen over the last twelve months; productivity of Yemeni business as reflected in value of business taxes and value added; industrial output; export levels; and number of joint ventures.
- Data sources: National economic data and baseline and annual data compiled by Project Secretariat.

c. Output level

At the output level the evaluations will be concerned primarily with the Project's success in meeting specific targets established in the Annual Work Plans for each module. Questions at this level will include: Have the planned number of policy studies been completed?; What is the number of investor inquiries that has been received? Number of resulting investments? How many training courses have been conducted? How many individuals have participated in training?

Indicators: Number of policy studies conducted within last twelve months; number of policy seminars or high level policy discussion held within last twelve-month period; number of policy recommendations adopted; number of investor inquiries; number of investor proposals; number of investments; number of trainees from public and private institutions key to USAID policy dialogue and implementation agendas; number of courses and participants in BMI and related programs.

Data Sources: Investment Promotion Authority statistics; Business Management Institute data; and information maintained by Project Secretariat

ANNEXES

ANNEX A: LOGICAL FRAMEWORK

LOGICAL FRAMEWORK

PROJECT TITLE AND NUMBER: YEMEN ENTERPRISE SUPPORT (YES) 279-0085

<u>Narrative Summary</u>	<u>Objectively Verifiable Indicators</u>	<u>Means of verification</u>	<u>Important Assumption</u>
PROGRAM GOAL:	MEASURES OF ACHIEVEMENT:	SOURCES OF INFORMATION	ASSUMPTIONS:
Sustainable economic development through private sector development in Yemen	Increased economic growth in the private sector	YAR national account statistics, economic reports.	YARG is willing to make significant policy reforms in pursuit of private sector growth
PROJECT PURPOSE:	END OF PROJECT STATUS:		ASSUMPTIONS RELATED TO PURPOSE
To establish mechanisms to promote expanded private sector trade and investment	Yemeni trade and investment mechanisms will be fully defined and implemented	YES Project Reports, monitoring and Evaluation Reports	Project implementation and technical assistance proceed efficiently
OUTPUTS:	MAGNITUDE OF OUTPUTS:		ASSUMPTIONS FOR ACHIEVING OUTPUTS:
1. A set of actionable policy analyses relating to private sector constraints	1. A total of 25 policy studies completed; of which at least 12 lead to specific private sector policy reforms	1. YES Project Reports; monitoring and Evaluation Reports	1. YARG is responsive to policy reform recommendations
2. A legal regime conducive to private sector investment and growth	2. A significantly reformed investment law will be approved	2. Ministry of Legal Affairs monthly bulletin, YES Project Reports	2. YARG is committed to increased domestic and foreign private investment
3. A self-sustained mechanism for promoting investment opportunities in Yemen	3. A new investment promotion authority will be established. Foreign direct investment will increase by 25% per year; domestic private investment will rise by 10% per year.	3. YES Project Reports, project monitoring data and baseline data, YARG and world bank statistics	3. No serious reduction in FX, No major political/military shocks in the region.

OUTPUTS (cont.)	MAGNITUDE OF OUTPUTS:(cont.)		
4. A series of activities to disseminate useful information to investors	4. Publication of useful investment promotion literature by the new investment promotion authority and the Chambers of Commerce.	4. YES project Reports, project monitoring and Evaluation Reports	4. Investment promotion authority and associations are responsive to the needs of investors
5. A self-sustained private sector which will improve managerial and business skills	5. A new management training center will be active and largely self-supporting	5. YES Project Reports	5. Sufficient trainers and trainees are available for courses.
6. Better-trained personnel in private sector firms, contributing to improved productivity.	6. 900 managers/entrepreneurs will have improved business and managerial skills	6. YES Project Training records, surveys of firms receiving TA	6. Trainees are able to apply newly learned skills in the business environment.

<u>INPUTS</u>	<u>INPUT QUANTITIES</u>	<u>INPUT COSTS (\$000)</u>	<u>ASSUMPTIONS</u>	
TA/LT/US or TC	8 PY	1,645	US and TC contractors willing and able to provide types and quantities of inputs required on a timely basis at prices that are reasonable	
TA/ST/US or TC	330 PM	2,833		
TS/LT/L	69 PY	2,764		
TR/ST/US.TC or L	195 PM	1,556		
COMM		1,553		
Other/Contingency		3,077		
Indirect costs		1,235		
Host Country Contributions		5,330		
Total Project Cost				Qualified candidates are identified and available for short-course training

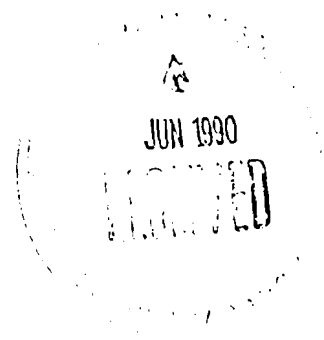
COMM Commodities
 CSS Contract Support Services
 L Local
 LT Long Term
 PM Person Months
 PY Person Years
 ST Short Term
 TA Technical Assistance
 TC Third Country
 TR Training
 TS Technical Support (Local Hire)
 US United States

Doc: 07090

ANNEX B

YARG LETTER OR REQUEST

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Republic of Yemen
Ministry of Planning and Development
Directorate of Projects and Bilateral Assistance

Ref. No. 2395
Date: 6/3/1990

Subject: USAID's Funding of YES Project

The Director of USAID

After compliments;

In reference to letter No. 2026 dated 4/30/1990 from the Ministry of Economy Supply and Trade (MEST) on the above subject, we would like to point out that the project documents submitted by you has been reviewed, studied and duly approved requesting your taking into consideration developments in the Yemeni arena.

Please advise your concerned officials to take the necessary actions to continue project works.

Dr. Mutahar Abdulla Al-Saeedi
Deputy Minister of
Planning and Development

c.c. - MEST
- Minister of Industry

DATE/DUE	ACTION	INFOR
7/10		
DIR/DD		✓
ACO		
AGR		
CON		
HR		
EXD		
GDO	✓	
GSO		
HPN		
IRI		✓
CHORN		✓
RF		✓
ACTION TAKEN _____		
DATE _____		
BY _____		

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UNCLAS SECTION 02 OF 02 STATE 008068

6. ECONOMIC/FINANCIAL ANALYSIS: THE PID INDICATES PROJECT IS CLEARLY THE LEAST-COST ALTERNATIVE TO ACHIEVING PROJECT'S GOALS AND PURPOSES, AND BECAUSE OF THIS, MISSION WILL NOT PURSUE FURTHER ECONOMIC AND FINANCIAL ANALYSIS DURING PP. MISSION DEVELOPED AND EXAMINED THREE POSSIBLE AVENUES DURING PID STAGE OF

ANNEX C: PID APPROVAL CABLE

1/2 UNCLASSIFIED

ACTION USAID-2 INFO AMB DCH

VZCZCSH0329EHV804
RR RUFBSH
DE RUEHC #8068/01 0091816
ZNR UUUUU ZZH
R 091813Z JAN 90
FM SECSTATE WASHDC
TO AMEMBASSY SANAA 4133
BT

UNCLAS SECTION 01 OF 02 STATE 008068

AIDAC

E.O. 12356: N/A

TAGS:

SUBJECT: PROJECT REVIEW: YEMEN ENTERPRISE SUPPORT (279-0085)

DATE	0809/01
DIR/DD	
ATO	
ACR	
CON	
FIN	
LSI	
CEO	
CSO	
FIN	
PRM	
CRM	
RF	
ACTION TAKEN _____	
DATE _____	
BY _____	

LOC: 31 299
10 JAN 90 0504
CH: 01359
URG: AID
DST: AID

1. SUMMARY: PROJECT REVIEW COMMITTEE MET AND REVIEWED PID FOR YEMEN ENTERPRISE SUPPORT (Y.E.S.) PROJECT ON NOVEMBER 21, 1989. USAID/YEMEN MISSION DIRECTOR KENNETH SHERPER PRESENTED THE PID TO THE PRC ON BEHALF OF THE MISSION. AT THE OUTSET OF THE MEETING MISSION PERSONNEL RECEIVED MUCH PRAISE FOR THEIR COMPREHENSIVE AND FRANK ANALYSES OF INTERNAL AND EXTERNAL CONSTRAINTS NEGATIVELY IMPACTING UPON THE YEMENI PRIVATE SECTOR AND OF RESOURCES AND ACTIONS NECESSARY IN ORDER TO RESOLVE THEM. PID IS HEREBY APPROVED WITHOUT REQUIREMENT OF ANPAC. ALSO, PP APPROVAL AND PROJECT AUTHORIZATION ARE DELEGATED TO THE MISSION DIRECTOR. REQUEST MISSION INCORPORATE INTO PROJECT DESIGN AND RESULTING PP THE GUIDANCE LISTED BELOW. END SUMMARY.

2. PROJECT STRATEGY: THIS TOPIC RECEIVED MOST ATTENTION AT PRC. PID IS VERY FORTHRIGHT IN LAYING OUT THE EXTREMELY DIFFICULT POLICY ENVIRONMENT UNDER WHICH THE PRIVATE SECTOR MUST OPERATE. PRC DISCUSSED AT

LENGTH WHETHER PROJECT SHOULD LIMIT ITSELF SOLELY TO IMPROVING THE POLICY CLIMATE. CERTAIN PRC MEMBERS, IN FACT, QUESTIONED THE EFFICACY OF IMPROVING FIRMS' OPERATIONS WITHOUT FIRST HAVING PASSAGE OF A FAVORABLE INVESTMENT LAW OR OTHER POLICY REFORMS.

MISSION DIRECTOR POINTED OUT THAT THERE IS INCREASING RECEPTIVITY TO AID ASSISTANCE IN ANALYSIS AND FORMULATION OF IMPORTANT POLICY CHANGES IN THIS AREA

ANNEX C: PID APPROVAL CABLE

2/2

UNCLASSIFIED

STATE 008068/02

THEIR NASCENT STAGE OF DEVELOPMENT FACE CONTINUAL FINANCIAL DIFFICULTIES, WHICH WOULD LIKELY PRECLUDE THEIR PARTICIPATION IN A FEEASSESSED TRAINING PROGRAM. AID/W RECOMMENDS MISSION FURTHER DETAIL THE ACTIONS TO BE UNDERTAKEN TO INSURE NEW ENTREPRENEURS RECEIVE TRAINING.

10. WAIVERS: WAIVERS REQUESTED SHOULD BE JUSTIFIABLE. REGARDING BLANKET TRANSPORTATION WAIVER, NS/OPS/TRANS IS IN THE PROCESS OF DETERMINING WHETHER THERE IS U.S. FLAG SERVICE TO HODEIDA. THIS DETERMINATION AND OTHER RELATED GUIDANCE WILL BE PROVIDED IN A SEPARATE CABLE. ALSO, MISSION STATED IN PID THAT IT UNDERSTANDS PROGRAM FUNDS CAN NOT BE USED TO FUND MEALS AT WORKSHOPS. USAID/W IS UNAWARE OF SUCH RESTRICTIONS. YOU MAY WISH TO LOOK INTO THIS MATTER FURTHER BAKER

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ANNEX D
STATUTORY CHECK LIST

5C(2) - PROJECT CHECKLIST

Listed below are statutory criteria applicable to projects. This section is divided into two parts. Part A includes criteria applicable to all projects. Part B applies to projects funded from specific sources only: B(1) applies to all projects funded with Development Assistance; B(2) applies to projects funded with Development Assistance loans; and B(3) applies to projects funded from ESF.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PROJECT?

A. GENERAL CRITERIA FOR PROJECT

1. FY 1990 Appropriations Act Sec. 523;

FAA Sec. 634A. If money is to be obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified?

YES

2. FAA Sec. 611(a). Prior to an obligation in excess of \$500,000, will there be:
(a) engineering, financial or other plans necessary to carry out the assistance;
and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

YES

3. FAA Sec. 611(a)(2). If legislative action is required within recipient country with respect to an obligation in excess of \$500,000, what is the basis for a reasonable expectation that such action will be completed in time to permit orderly accomplishment of the purpose of the assistance?

Based on discussions with appropriate Government officials ratification of the project agreement will be done on a timely basis.

Also based on discussions with Government officials, it is expected that the Investment Promotion Authority included a sub-element of the project will receive legislative approval on a timely basis. Delay in approval will not prevent accomplishment of the overall purpose of the assistance.

4. FAA Sec. 611(b); FY 1990 Appropriations Act Sec. 501. If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See A.I.D. Handbook 3 for guidelines.)

N/A

5. FAA Sec. 611(e). If project is capital assistance (e.g., construction), and total U.S. assistance for it will exceed \$1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively?

N/A

6. FAA Sec. 209. Is project susceptible to execution as part of regional or multilateral project? If so, why is project not so executed? Information and conclusion whether assistance will encourage regional development programs.

NO

7. FAA Sec. 601(a). Information and conclusions on whether projects will encourage efforts of the country to:
(a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.

The purpose of the project is to address constraints on, and provide opportunities for, increased private sector trade and investment. The project will emphasize (a), (b), (d) and (e).

8. FAA Sec. 601(b). Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

The project will provide for several linkages to U.S. trade and investment including through IESC, TDP and the U.S. Chambers of Commerce.

9. FAA Secs. 612(b), 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars. Yemeni Chambers of Commerce are supplying office space and other support for training programs; private sector beneficiaries will pay fees for technical and training services; participating government agencies are contributing staff, office, and other support.
10. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release? NO
11. FY 1990 Appropriations Act Sec. 521. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity? N/A
12. FY 1990 Appropriations Act Sec. 547. Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel? NO
13. FAA Sec. 119(g)(4)-(6) & (10). Will the assistance: (a) support training and education efforts which improve the capacity of recipient countries to prevent loss of biological diversity; (b) be provided under a long-term agreement in which the recipient country agrees to protect ecosystems or other
- NO

wildlife habitats; (c) support efforts to identify and survey ecosystems in recipient countries worthy of protection; or (d) by any direct or indirect means significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas?

14. FAA Sec. 121(d). If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (either dollars or local currency generated therefrom)?

N/A

15. FY 1990 Appropriations Act, Title II, under heading "Agency for International Development." If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government?

Project design does not call for providing assistance through U.S. PVOs.

16. FY 1990 Appropriations Act Sec. 537. If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.?

N/A

17. FY 1990 Appropriations Act Sec. 514. If funds are being obligated under an appropriation account to which they were not appropriated, has the President consulted with and provided a written justification to the House and Senate Appropriations Committees and has such obligation been subject to regular notification procedures?

N/A

10. State Authorization Sec. 139 (as interpreted by conference report). Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision). Applicable requirements concerning signing notification and document submission will be complied with.
19. Trade Act Sec. 5164 (as interpreted by conference report), amending Metric Conversion Act of 1975 Sec. 2. Does the project use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? YES N/A. This is almost entirely a technical assistance project
20. FY 1990 Appropriations Act, Title II, under heading "Women in Development." Will assistance be designed so that the percentage of women participants will be demonstrably increased? YES
21. FY 1990 Appropriations Act Sec. 592(a). If assistance is furnished to a foreign government under arrangements which result in the generation of local currencies, has A.I.D. (a) required that local currencies be deposited in a separate account established by the recipient government, (b) entered into an agreement with that government providing the amount of local currencies to be generated and the terms and conditions under which the currencies so deposited may be utilized, and (c) established by agreement the responsibilities of A.I.D. and that government to monitor and account for deposits into and disbursements from the separate account? N/A

Will such local currencies, or an equivalent amount of local currencies, be used only to carry out the purposes of the DA or ESF chapters of the FAA (depending on which chapter is the source of the assistance) or for the administrative requirements of the United States Government?

N/A

Has A.I.D. taken all appropriate steps to ensure that the equivalent of local currencies disbursed from the separate account are used for the agreed purposes?

N/A

If assistance is terminated to a country, will any unencumbered balances of funds remaining in a separate account be disposed of for purposes agreed to by the recipient government and the United States Government?

N/A

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

a. FY 1990 Appropriations Act Sec. 546 (as interpreted by conference report for original enactment). If assistance is for agricultural development activities (specifically, any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training), are such activities: (1) specifically and principally designed to increase agricultural exports by the host country to a country other than the United States, where the export would lead to direct competition in that third country with exports of a similar commodity grown or produced in the United States, and can the activities reasonably be expected to cause substantial injury to U.S. exporters of a similar agricultural commodity; or (2) in support of research that is intended primarily to benefit U.S. producers?

N/A. While the assistance will benefit the agricultural and rural sectors, it will not involve the listed activities.

b. FAA Sec. 107. Is special emphasis placed on use of appropriate technology (defined as relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?

No, although the availability and use of such technologies may be indirectly encouraged.

c. FAA Sec. 281(b). Describe extent to which the activity recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.

Yemeni trainers will be trained to provide continuing business education for the private sector; local experts will participate in policy studies; technical assistance will develop and strengthen chambers of commerce, selected government agencies, and individual private sector firms.

d. FAA Sec. 101(a). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?

YES

e. FAA Secs. 102(b), 111, 113, 281(a). Describe extent to which activity will: (1) effectively involve the poor in development by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, dispersing investment from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using appropriate U.S. institutions; (2) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life, and otherwise encourage democratic private and local governmental institutions; (3) support the self-help efforts of developing countries; (4) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (5) utilize and encourage regional cooperation by developing countries.

A Small Scale Industry Institute, an in-country training program, an special arrangements with the IESC will extend Chambers of Commerce services to small firms and to areas outside major urban centers. The chambers are private sector self-help organizations. Training and assistance will be supportive of the Mission's new women in development program emphasizing income-generation activities. Visits and training will involve other countries in the region with USAID Missions.

f. FAA Secs. 103, 103A, 104, 105, 106, 120-21; FY 1990 Appropriations Act, Title II, under heading "Sub-Saharan Africa, DA." Does the project fit the criteria for the source of funds (functional account) being used?

Much of Yemen's population is still rural-based. This project's support for investments in processing and manufacturing will include the agricultural sector.

g. FY 1990 Appropriations Act, Title II, under heading "Sub-Saharan Africa, DA." Have local currencies generated by the sale of imports or foreign exchange by the government of a country in Sub-Saharan Africa from funds appropriated under Sub-Saharan Africa, DA been deposited in a special account established by that government, and are these local currencies available only for

N/A

use, in accordance with an agreement with the United States, for development activities which are consistent with the policy directions of Section 102 of the FAA and for necessary administrative requirements of the U. S. Government?

h. FAA Sec. 107. Is emphasis placed on use of appropriate technology (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?

See b. above.

i. FAA Secs. 110, 124(d). Will the recipient country provide at least 25 percent of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)?

Yes, as provided in the project grant agreement.

j. FAA Sec. 128(b). If the activity attempts to increase the institutional capabilities of private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority?

Yes, the project's efforts to increase private sector growth should lead to increased incomes and employment. Achievement of this purpose will benefit the poor majority of Yemen, an RLDC.

k. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civil education and training in skills required for effective participation in governmental processes essential to self-government.

See c. above.

l. FY 1990 Appropriations Act, under heading "Population, DA," and Sec. 535. Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions?

N/A

Are any of the funds to be used to pay for the performance of involuntary sterilization as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations? N/A

Are any of the funds to be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization? N/A

Will funds be made available only to voluntary family planning projects which offer, either directly or through referral to, or information about access to, a broad range of family planning methods and services? N/A

In awarding grants for natural family planning, will any applicant be discriminated against because of such applicant's religious or conscientious commitment to offer only natural family planning? N/A

Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning? N/A

m. FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? YES

n. FY 1990 Appropriations Act Sec. 579. What portion of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, colleges and universities having a student body in which more than 40 percent of the students are Hispanic Americans, and

Some anticipated technical assistance may be provided by the IESC and U.S. Chambers of Commerce. Other institutions will be selected during the course of project implementation. Where appropriate this concern will be addressed at that time.

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private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)?

o. FAA Sec. 118(c). Does the assistance comply with the environmental procedures set forth in A.I.D. Regulation 16? Does the assistance place a high priority on conservation and sustainable management of tropical forests? Specifically, does the assistance, to the fullest extent feasible: (1) stress the importance of conserving and sustainably managing forest resources; (2) support activities which offer employment and income alternatives to those who otherwise would cause destruction and loss of forests, and help countries identify and implement alternatives to colonizing forested areas; (3) support training programs, educational efforts, and the establishment or strengthening of institutions to improve forest management; (4) help end destructive slash-and-burn agriculture by supporting stable and productive farming practices; (5) help conserve forests which have not yet been degraded by helping to increase production on lands already cleared or degraded; (6) conserve forested watersheds and rehabilitate those which have been deforested; (7) support training, research, and other actions which lead to sustainable and more environmentally sound practices for timber harvesting, removal, and processing; (8) support research to expand knowledge of tropical forests and identify alternatives which will prevent forest destruction, loss, or degradation; (9) conserve biological diversity in forest areas by supporting efforts to identify, establish, and maintain a representative network of protected tropical forest ecosystems on a worldwide basis, by making the establishment of protected areas a

The assistance complies with A.I.D.'s environmental procedures. The assistance does not involve or affect forests.

condition of support for activities involving forest clearance or degradation, and by helping to identify tropical forest ecosystems and species in need of protection and establish and maintain appropriate protected areas; (10) seek to increase the awareness of U.S. Government agencies and other donors of the immediate and long-term value of tropical forests; and (11) utilize the resources and abilities of all relevant U.S. government agencies?

p. FAA Sec. 118(c)(13). If the assistance will support a program or project significantly affecting tropical forests (including projects involving the planting of exotic plant species), will the program or project: (1) be based upon careful analysis of the alternatives available to achieve the best sustainable use of the land, and (2) take full account of the environmental impacts of the proposed activities on biological diversity?

N/A

q. FAA Sec. 118(c)(14). Will assistance be used for: (1) the procurement or use of logging equipment, unless an environmental assessment indicates that all timber harvesting operations involved will be conducted in an environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management systems; or (2) actions which will significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas?

NO

r. FAA Sec. 118(c)(15). Will assistance be used for: (1) activities which would result in the conversion of forest lands to the rearing of livestock; (2) the construction, upgrading, or maintenance of roads (including temporary haul roads for logging or other extractive industries) which pass through relatively undergraded forest lands; (3) the

NO

colonization of forest lands; or (4) the construction of dams or other water control structures which flood relatively undergraded forest lands, unless with respect to each such activity an environmental assessment indicates that the activity will contribute significantly and directly to improving the livelihood of the rural poor and will be conducted in an environmentally sound manner which supports sustainable development?

s. FY 1990 Appropriations Act

Sec. 534(a). If assistance relates to tropical forests, will project assist countries in developing a systematic analysis of the appropriate use of their total tropical forest resources, with the goal of developing a national program for sustainable forestry?

N/A

t. FY 1990 Appropriations Act

Sec. 534(b). If assistance relates to energy, will such assistance focus on improved energy efficiency, increased use of renewable energy resources, and national energy plans (such as least-cost energy plans) which include investment in end-use efficiency and renewable energy resources?

N/A

Describe and give conclusions as to how such assistance will: (1) increase the energy expertise of A.I.D. staff, (2) help to develop analyses of energy-sector actions to minimize emissions of greenhouse gases at least cost, (3) develop energy-sector plans that employ end-use analysis and other techniques to identify cost-effective actions to minimize reliance on fossil fuels, (4) help to analyze fully environmental impacts (including impact on global warming), (5) improve efficiency in production, transmission, distribution, and use of energy, (6) assist in exploiting nonconventional renewable energy resources, including wind, solar, small-hydro, geo-thermal, and advanced

N/A

biomass systems, (7) expand efforts to meet the energy needs of the rural poor, (8) encourage host countries to sponsor meetings with United States energy efficiency experts to discuss the use of least-cost planning techniques, (9) help to develop a cadre of United States experts capable of providing technical assistance to developing countries on energy issues, and (10) strengthen cooperation on energy issues with the Department of Energy, EPA, World Bank, and Development Assistance Committee of the OECD.

u. FY 1990 Appropriations Act, Title II, under heading "Sub-Saharan Africa, DA"

N/A

(as interpreted by conference report upon original enactment): If assistance will come from the Sub-Saharan Africa DA account, is it: (1) to be used to help the poor majority in Sub-Saharan Africa through a process of long-term development and economic growth that is equitable, participatory, environmentally sustainable, and self-reliant; (2) being provided in accordance with the policies contained in section 102 of the FAA; (3) being provided, when consistent with the objectives of such assistance, through African, United States and other PVOs that have demonstrated effectiveness in the promotion of local grassroots activities on behalf of long-term development in Sub-Saharan Africa; (4) being used to help overcome shorter-term constraints to long-term development, to promote reform of sectoral economic policies, to support the critical sector priorities of agricultural production and natural resources, health, voluntary family planning services, education, and income generating opportunities, to bring about appropriate sectoral restructuring of the Sub-Saharan African economies, to support reform in public administration and finances and to establish a favorable environment for individual enterprise and self-sustaining development, and to take

into account, in assisted policy reforms, the need to protect vulnerable groups; (5) being used to increase agricultural production in ways that protect and restore the natural resource base, especially food production, to maintain and improve basic transportation and communication networks, to maintain and restore the renewable natural resource base in ways that increase agricultural production, to improve health conditions with special emphasis on meeting the health needs of mothers and children, including the establishment of self-sustaining primary health care systems that give priority to preventive care, to provide increased access to voluntary family planning services, to improve basic literacy and mathematics especially to those outside the formal educational system and to improve primary education, and to develop income-generating opportunities for the unemployed and underemployed in urban and rural areas?

v. International Development Act Sec. 711, FAA Sec. 463. If project will finance a debt-for-nature exchange, describe how the exchange will support protection of: (1) the world's oceans and atmosphere, (2) animal and plant species, and (3) parks and reserves; or describe how the exchange will promote: (4) natural resource management, (5) local conservation programs, (6) conservation training programs, (7) public commitment to conservation, (8) land and ecosystem management, and (9) regenerative approaches in farming, forestry, fishing, and watershed management.

N/A

w. FY 1990 Appropriations Act Sec. 515. If deob/reob authority is sought to be exercised in the provision of DA assistance, are the funds being obligated for the same general purpose, and for countries within the same region as originally obligated, and have the House and Senate Appropriations Committees been properly notified?

N/A

1. Development Assistance Project Criteria
(Loans Only)

a. FAA Sec. 122(b). Information and conclusion on capacity of the country to repay the loan at a reasonable rate of interest. N/A

b. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20 percent of the enterprise's annual production during the life of the loan, or has the requirement to enter into such an agreement been waived by the President because of a national security interest? N/A

c. FAA Sec. 122(b). Does the activity give reasonable promise of assisting long-range plans and programs designed to develop economic resources and increase productive capacities? N/A

Economic Support Fund Project Criteria

a. FAA Sec. 531(a). Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA? N/A

b. FAA Sec. 531(e). Will this assistance be used for military or paramilitary purposes? N/A

c. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? N/A

5C(3) - STANDARD ITEM CHECKLIST

Listed below are the statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the agreement by imposing limits on certain uses of funds.

These items are arranged under the general headings of (A) Procurement, (B) Construction, and (C) Other Restrictions.

A. PROCUREMENT

1. FAA Sec. 602(a). Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed? YES
2. FAA Sec. 604(a). Will all procurement be from the U.S. except as otherwise determined by the President or determined under delegation from him? YES
3. FAA Sec. 604(d). If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company? YES
4. FAA Sec. 604(e). If non-U.S. procurement of agricultural commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.) N/A

5. FAA Sec. 604(g). Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible under Code 941 and which have attained a competitive capability in international markets in one of these areas? (Exception for those countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries.)

N/A

6. FAA Sec. 603. Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates?

A blanket determination of non-availability is expected from AID/W. Otherwise, the project will comply.

7. FAA Sec. 621(a). If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Will the facilities and resources of other Federal agencies be utilized, when they are particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

Yes, the private sector will be utilized to the fullest extent practicable. Other Federal Agencies also may be used.

8. International Air Transportation Fair Competitive Practices Act, 1974. If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available?

YES

9. FY 1990 Appropriations Act Sec. 504. If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States?

YES

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10. FY 1990 Appropriations Act Sec. 524. If assistance is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)? Yes, if applicable.
11. Trade Act Sec. 5164 (as interpreted by conference report), amending Metric Conversion Act of 1975 Sec. 2. Does the project use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? See Project Checklist, Item A.19
12. FAA Secs. 612(b), 636(h); FY 1990 Appropriations Act Secs. 507, 509. Describe steps taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services. See Project Checklist, Item A.9.
13. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release? NO
14. FAA Sec. 601(e). Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? YES

CONSTRUCTION

1. FAA Sec. 601(d). If capital (e.g., construction) project, will U.S. engineering and professional services be used? N/A
2. FAA Sec. 611(c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable? N/A
3. FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed \$100 million (except for productive enterprises in Egypt that were described in the CP), or does assistance have the express approval of Congress? N/A

OTHER RESTRICTIONS

1. FAA Sec. 122(b). If development loan repayable in dollars, is interest rate at least 2 percent per annum during a grace period which is not to exceed ten years, and at least 3 percent per annum thereafter? N/A
2. FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? N/A
3. FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries? YES

4. Will arrangements preclude use of financing:
- a. FAA Sec. 104(f); FY 1990 Appropriations Act under heading "Population, DA," and Secs. 525, 535. YES
(1) To pay for performance of abortions as a method of family planning or to motivate or coerce persons to practice abortions; (2) to pay for performance of involuntary sterilization as method of family planning, or to coerce or provide financial incentive to any person to undergo sterilization; (3) to pay for any biomedical research which relates, in whole or part, to methods or the performance of abortions or involuntary sterilizations as a means of family planning; or (4) to lobby for abortion?
 - b. FAA Sec. 483. To make reimbursements, in the form of cash payments, to persons whose illicit drug crops are eradicated? YES
 - c. FAA Sec. 620(g). To compensate owners for expropriated or nationalized property, except to compensate foreign nationals in accordance with a land reform program certified by the President? YES
 - d. FAA Sec. 660. To provide training, advice, or any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? YES
 - e. FAA Sec. 662. For CIA activities?
 - f. FAA Sec. 636(i). For purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? YES
 - g. FY 1990 Appropriations Act Sec. 503. To pay pensions, annuities, retirement pay, or adjusted service compensation for prior or current military personnel? YES
 - h. FY 1990 Appropriations Act Sec. 505. To pay U.N. assessments, arrearages or dues? YES

- i. FY 1990 Appropriations Act Sec. 506. YES
To carry out provisions of FAA section 209(d) (transfer of FAA funds to multilateral organizations for lending)?
- j. FY 1990 Appropriations Act Sec. 510. YES
To finance the export of nuclear equipment, fuel, or technology?
- k. FY 1990 Appropriations Act Sec. 511. YES
For the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights?
- l. FY 1990 Appropriations Act Sec. 516; YES
State Authorization Sec. 109. To be used for publicity or propaganda purposes designed to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States, or for any publicity or propaganda purposes not authorized by Congress?
5. FY 1990 Appropriations Act Sec. 574. YES
Will any A.I.D. contract and solicitation, and subcontract entered into under such contract, include a clause requiring that U.S. marine insurance companies have a fair opportunity to bid for marine insurance when such insurance is necessary or appropriate?
5. FY 1990 Appropriations Act Sec. 582. NO
Will any assistance be provided to any foreign government (including any instrumentality or agency thereof), foreign person, or United States person in exchange for that foreign government or person undertaking any action which is, if carried out by the United States Government, a United States official or employee, expressly prohibited by a provision of United States law?

ANNEX E

USAID/YEMEN DESIGN AND REVIEW COMMITTEE

1. Kenneth H. Sherper	Mission Director
2. Michael F. Lukomski	Deputy Mission Director
3. Robert E. Mitchell (Chairman)	Supervisory General Development Officer
4. Benjamin Hawley	Program Officer
5. Jonathan Addleton	Deputy Program Officer
6. John Schamper	Agricultural Development Officer

ANNEX F.

ECONOMIC SETTING FOR PRIVATE ENTERPRISE DEVELOPMENT

The basic objective of the Yemen Enterprise Support (YES) Project is to contribute to sustained economic growth in Yemen by stimulating private sector output and productivity. To meet that goal effectively, YES Project components should be directed as closely as possible to existing constraints and opportunities now faced by private enterprise in Yemen. As such, the Project and its constituent parts need to be based on a clear understanding of Yemen's economic and commercial environment.


The purpose of this technical analysis is to summarize Yemen's economic climate and to present succinctly but comprehensively those critical factors that materially affect private sector development in Yemen. The analysis is supported by an unusually rich set of recent studies. Most were conducted by or on behalf of USAID/Yemen, and cover such diverse areas as macroeconomic developments, agricultural trends, investment policies, the financial sector, workers' remittances, and training needs. These studies are supplemented by analyses carried out by the U.S. Embassy in Yemen, the U.S. Department of Commerce, the World Bank and the International Monetary Fund, among others.

Collectively, the available literature provides inputs into this analysis and precludes the need for major data gathering by the project design team. Existing studies will be noted where relevant in the text of the analysis, and will be listed in a separate appendix to this report.

I. YEMEN'S ECONOMIC STRUCTURE IN BRIEF

The Yemen economy can be characterized as a traditional and relatively open system currently in the process of early transition to modern economic processes and structures. On the one hand, major productive sectors are closely tied to long-standing social customs and economic practices, which in turn are deeply ingrained in the society. Some of these structures run counter to private enterprise development, and hence represent constraints that must be addressed. Other structures can be viewed as sources of strength to develop further. What remains clear is the fact that economic transition is not a short-term proposition, but rather will require sustained efforts over a considerable period of time.

On the other hand, a number of modern commercial forces have been introduced in Yemen, and are likely to shape an economic future which is driven by private sector activity. The YES Project seeks to support private enterprise development which is consistent with the overall aims of the Yemeni Government and people.



Yemen's economy is relatively small and less developed than those of other countries in the region. Slightly larger in size than the state of Missouri, Yemen has a population of about 9.5 million (1988) and a per capita GNP of approximately \$650. Indicators of social performance are low. For example, life expectancy at birth is about 46 years, infant mortality runs at a rate as high as 151 per thousand births, only 31 percent of the population has access to safe water, and the nation's literacy rate is about 20 percent.

Yemen's high population growth rate of 3.1 percent annually is placing increasing strains on the country's resource base and social services. The implication of population growth is that large numbers of Yemenis will enter the labor market in the future and require productive employment. At present, there is little scope for existing economic sectors to employ these workers (the demand side), and the workers themselves (the supply side) have little in the way of education or technical skills.

The economy of Yemen displays the following structural characteristics, each of which offers useful insights for the design of the YES Project. After a brief description of each attribute, its implication for the YES Project will be presented.

1. Historically, the economy and private enterprise were dominated heavily by agriculture and trading. In 1975, agriculture accounted for 75.5 percent of Yemen's total labor force, and trade for 6.3 percent, leaving less than one fifth of employment for all other sectors. The share of agriculture has declined to about 60.0 percent, but trade has increased to about 8.0 percent of total employment. In 1975, agriculture and trading collectively accounted for 62.0 percent of GDP (44.0 percent for agriculture and 18.0 percent for trade). This aggregate share fell to 34.0 percent by 1988 (23.0 percent for agriculture and 10.0 percent for trade) due to the introduction of oil production and increases in construction and government services. Despite this declining share, agriculture and trading remain the mainstays of the economy.

The implication of this factor is that in its initial period, the YES Project is most likely to find success in activities associated with agribusiness and/or related to trading activities or involving firms traditionally involved in agriculture.

2. International transactions are centrally important to economic activity and prospects. The nation's exports and imports (combined) account for about one half of GDP, according to official statistics, but the share is much higher when informal sector trade is included. Income

transfers from Yemeni citizens working abroad have provided significant levels of foreign exchange. Since 1986, foreign oil sales have become increasingly important sources of both foreign exchange and government revenues. Expatriate earnings and oil sales have been supplemented by significant but declining inflows of official economic assistance.

In view of the importance of the external sector, the YES Project should concentrate on rationalizing international policy structures and on taking advantage of international flows of goods, services, and factors of production.

3. The maintenance of consumption levels and living standards is heavily dependent upon imports. As a corollary to the importance of international transactions, imports are needed to supply most areas of consumption. Only about one half of food consumed is produced domestically. Given the lack of a diversified production base, the majority of capital goods, production inputs and many categories of consumer goods are imported. In view of this import dependence, continuous efforts are required both to increase domestic production (import substitution) and to develop new sources of foreign exchange earnings (export promotion).

As a result of Yemen's import dependence, the YES Project policy, promotion and training activities should be targeted toward stimulating enterprises which earn or conserve foreign exchange. This includes the promotion of exports and production which substitute for imports on a world competitive basis.

4. Private enterprise is predominantly indigenous rather than foreign. The majority of business operations in Yemen are carried out by local firms. Manufacturing is typically carried out by larger trading companies that are diversifying their activities. The presence of foreign firms is generally felt in the form of local companies acting as agents and dealerships, with some joint ventures and technology licensing arrangements in the manufacturing sector.

In the near term, the YES Project should focus on stimulating private sector trade and investment ventures by Yemeni firms rather than foreign companies. Pursuing opportunities for U.S. and other foreign firms should not be precluded, but early achievements can most realistically be expected from Yemeni enterprises. In addition, efforts to improve Yemeni policies, promotional capabilities and productivity will assist both foreign and indigenous enterprises.

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5. The Yemeni Government supports private enterprise development, but still seeks control over commercial activities. The government has long been pro-business, and nearly all of agriculture and trading establishments are in private hands. The majority of government or mixed public/private enterprises are found in industry (cement, textiles, etc.) and certain services subsectors (utilities, transport, etc.). The number of parastatals has remained stable in recent years, and the government has in both policy pronouncements and actions indicated its support of private sector-led growth. Nevertheless, the attitude of many government officials favors controls, as in many countries. In addition, rising demands for social services, coupled with declines in traditional foreign exchange and revenue sources, has led the government to seek various revenue and exchange "enhancement" initiatives from private business. Each entails greater control, which inevitably leads to more individuals and firms reverting to informal or curb markets to handle their transactions.

The YES Project should promote productive policy dialogue which reinforces pro-private sector sentiments among government officials and organizations. In addition, Project goals should aim at alleviating the economic conditions (e.g., foreign exchange shortages) which force increasing levels of government intervention.

6. The composition of private enterprise in Yemen is bifurcated between a select number of large trading firms which dominate commercial activities and a large number of very small enterprises (farms, shops, and service firms). About 20 family-owned and operated trading houses have grown over decades to the point where they control the majority of large or even medium scale operations. Many of these companies are now in the process of diversifying into manufacturing and other activities. Medium sized firms are largely nonexistent. Small and micro-enterprises are numerous and typically engage in farming, retailing and informal sector activities.

The YES Project should seek to improve the policy climate for large and small enterprises alike, and trade and investment promotion initiatives (information, marketing, and start-up assistance) should be largely neutral with respect to target audiences. However, the training and technical assistance efforts should to the extent possible be directed toward assisting small enterprises to improve their productivity and scale.

II. YEMEN'S ECONOMIC ASSETS AND LIABILITIES

Each nation is endowed with given amounts of productive economic resources. Certain categories of resources such as land, minerals deposits and labor supplies cannot be altered in the near term. Absolute endowments or shortages tend to set the parameters for overall productive capacity, whereas relative endowments basically determine comparative advantages. Accordingly, any country's development performance and private sector growth are both closely tied with its economic resource base.

Land and Natural Resources

Located on the southwest corner of the Arabian Peninsula, Yemen is arid and rugged. Large portions of the country are mountainous or rocky, with limited soil for cultivation. About one half of the nation's land mass is infertile desert or rock, about one third is suitable for rough grazing, and only about 14 percent is arable. Rainfall is scarce in most regions, and some heavily populated areas face continuous depletion of existing aquifers.

The natural resource base for agriculture is hence poor in an absolute sense, but better relative to situations in most other countries in the region. Climatic conditions vary from tropical to temperate, allowing for cultivation of a diverse set of crops as well as animal husbandry. More importantly, centuries of irrigation and water conservation practices have opened up agriculture in areas not normally suitable for farming.

Yemen's major natural resource asset is newly discovered and developed oil and natural gas. Commercially exploitable amounts of oil and gas were found in 1984 in the Marib/Jawf basin, and oil production began in late 1987 following completion of a pipeline from the production field to the Red Sea. The oil is light in gravity and low in sulphur, thereby attracting premium prices. The nation's total oil reserves are estimated at about 800 million barrels, which at anticipated lifting rates (currently about 200,000 barrels per day) should be exhausted sometime in the mid-1990s.

Yemen's natural gas reserves are probably sufficient to provide inexpensive energy feedstock for the indefinite future. The Marib field is already producing some liquified petroleum gas (LPG), although most gas is reinjected into the oil fields. Numerous initiatives for producing LPG in quantity for use in power plants and factories are now being considered. Most would require extensive conversion of plants from diesel oil to gas, but would yield major cost savings, particularly in electrical power generation. At present, according to a recent study of energy use in Yemen by the World Bank, industrial users are favored at the expense of other consumers. This practice is creating a bias towards energy-intensive capital. It would be better, therefore, to convert to less-costly methods of producing power and to pass the savings on to users to help offset what is now a relatively high cost production environment.

Other than oil and natural gas reserves, Yemen's natural resources endowments are limited. Deposits of lead, marble and gypsum are believed to be commercially exploitable. Deposits of a wide range of other minerals (zinc tin, copper, tungsten, iron, nickel, silver, etc.) have been found but have not been developed.

Labor Resources

As calculated in the most recent census (1986), the population of Yemen stood at 9.3 million in that year. Of the total, the Yemeni population residing outside the country was 1.2 million, mostly migrant workers (and their families) in Saudi Arabia. The total labor force is estimated to be 1.7 million, a figure which does not include most women working on farms in rural areas.

The number of Yemeni male migrant workers has been difficult to calculate with any precision, but is estimated by Clive Sinclair in a recent USAID-financed study of remittances, to be approximately 300,000 in 1990. This represents a decline of approximately 100,000 from the peak of more than 400,000 male workers in 1983. Estimates by the World Bank put the number of Yemenis in the GCC states at about 500,000, a number which includes wives and children.

The outflow of workers over the past two decades led to labor shortages in Yemen, which in turn pushed up wage rates. Workers are returning from abroad to face a new generation of job entrants, strong competition for good jobs, and increasing skill requirements. Therefore, labor markets are shifting from excess demand to excess supply, particularly in un-skilled employment categories.

According to the Central Planning Organization (CPO), domestic employment grew at an annual rate of 3.2 percent from 1975-1981, and at 2.7 percent over the period 1981-1986. No official estimates of unemployment are available, but the rate may fall in the range of 7.0 to 8.0 percent or more, supplemented by considerable levels of disguised unemployment or under-employment. During the absence of male migrant workers, agricultural work in rural areas has been carried out by women and children. Upon their return, many male workers establish small shops or services, leaving farming duties to women and children.

The major absorption of labor has been found in oil extraction (rapid growth but from de minimus initial levels), utilities (electricity, water and gas) and finance. Employment growth rates in agriculture and construction have declined in the 1980s compared to the 1970s, whereas employment growth in manufacturing and transport and communications has accelerated slightly in the 1980s.

Wage rate statistics are not published. Informal interviews suggest that the daily wage of an unskilled worker in Sana'a was approximately 100 rials in 1987. This represented a nominal increase of about 30 percent over 1984, but a real wage decline of about 25 percent after inflation is taken into account.


As noted in a separate appendix to this report, the skill base of private enterprise in Yemen is generally weak and narrow. Due to both economic and social factors, educated managers tend naturally to gravitate toward either the large private trading firms or government posts. Middle management capabilities in the areas of project design and implementation, accounting, marketing and other business skills are largely absent, thereby requiring top level managers to engage themselves in all aspects of doing business. Shortages in these areas have led many firms to hire expatriate workers (primarily from Egypt, Jordan and other neighboring countries) despite ongoing efforts to "Yemenize" these positions.

Financial Resources

The majority of private sector activity in Yemen is financed from equity rather than borrowing. Relatively introverted family enterprises utilize their own capital to cover trading transactions and diversification efforts. The nation's balance of payments deficits have left the official banking system largely illiquid, and so few funds are available for commercial lending. In addition, the majority of funds in the formal banking system are absorbed by the government in its efforts to cover expenditures.

According to an A.I.D.-funded report, "A Study of the Financial System of the Yemen Arab Republic" (1987), the financial system of Yemen is small in comparison to the size of the economy. The formal system is composed of the Central Bank of Yemen, nine commercial banks, three specialized banks, four pension funds, the Yemen Company for Investment and Finance and three insurance companies. The Central Bank and the Yemen Bank for Reconstruction and Development (YBRD) are the dominant players, with the latter controlling some 80 percent of domestic deposit-taking and lending. The private commercial banks are subsidiaries or affiliates of foreign banks as well as consortia of institutions.

Financial institutions and markets are poorly developed and are highly conservative in practice. There is no formal capital market, and financial instruments are limited to ordinary deposits and trade transaction paper. Secondary markets do not exist. Deposit and lending rate limits offer little incentive for savers. Current deposit rates are in the 8-10 percent range and lending rates are about 17 percent. Despite this positive spread, the current rate of inflation -- informally estimated at about 20-50 percent annually -- lead to considerably negative real rates of interest.



The cumulative result of these structural and policy problems is that as much as two thirds of liquidity in Yemen is held in cash outside the banking system. In addition, where possible traders and overseas workers seek to hold their cash balances in offshore deposits. Consequently, not only is the official system subject to leakage and capital flight, but large shares of cash never enter into the formal system at all. To make matters worse, the extensive and expensive consumption of qat (requiring outlays of perhaps 50 rials per day on average) has reduced cash balances and savings by households.

Financial repression and scarcity of instruments earning positive returns has significantly constrained financial investment and capital formation on the saving side. On the capital use side, limited opportunities for productive investment have led to funds being placed in goods and in real estate, which respectively increase consumption and fuel property speculation.

Notwithstanding these major financial problems, private sector entrepreneurs indicate that funding can be obtained for sound, profitmaking ventures. This financing is acquired from family assets and informal market sources rather than from the official system. Nevertheless, accessing capital and credit is not viewed as a binding constraint to private enterprise development.

Technology Acquisition and Use

Agricultural production in Yemen remains based largely on traditional technologies developed over centuries. The introduction of newer methods is constrained by the small scale of farms and poor water resources, lack of capital, the high cost of fertilizers and other inputs, and the physical absence of male farmers employed overseas.

The use of modern technologies in the industrial sector is unusually high. Following site visits to local factories, foreign consultants have indicated a surprising capacity for Yemeni firms to acquire and employ new technologies effectively, albeit often administered by expatriate employees. The principal limitations for technology acquisition appear to be those constraining overall enterprise development -- policy problems, lack of management skills to design and implement projects, and shortages of foreign exchange needed for technology licensing or purchase.

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III. COMPARATIVE ADVANTAGES, CONSTRAINTS AND OPPORTUNITIES

The review of Yemen's resource endowments presented above indicates that like many developing countries, Yemen is confronted by many resource shortages in an absolute sense. Arable land, fertile soil and water are scarce. Other than deposits of oil and natural gas, the nation's base of natural resources is narrow. Adequate labor in certain skill categories is in short supply, and Yemen is far from well endowed in financial resources.

However, the experiences of Taiwan, South Korea, Singapore and other newly industrializing countries indicate that absolute shortages of resources do not necessarily prevent sustained economic growth. In fact, the nations which have achieved the greatest success in development have been those which started from conditions of poor resource endowments. Success was attained from the objective identification and gradual enhancement of comparative advantages, as well as the removal or reduction of non-resource constraints to private sector development.

Adopting this positive perspective, one can point to a number of productive opportunities for the private sector of Yemen, perhaps in concert with the international business community. An initial indication of general opportunities is provided below, along with an accompanying rationale.

Production for Export

In years past, Yemen exported material amounts of coffee, cotton, hides and skins and other primary agricultural products. These exports dwindled to negligible amounts in the 1980s due largely to neglect -- earnings from migrant workers and later oil sales reduced the imperative to produce domestic goods for sale abroad. In addition, currency overvaluation decreased competitiveness and incentives.

Currency realignments and other policy incentives have led a revival of traditional exports (coffee, biscuits, hides and skins, etc.), as well as the introduction of nontraditional exports such as fruits and vegetables, fish, and textiles and other light manufactured goods. While non-oil exports should never be expected to be a leading source of growth, and proceeds from such exports will not rival those from oil sales for some time, there is reasonable scope for non-oil exports if certain conditions (appropriate policies) are met.

A revival of export cash cropping is clearly possible, particularly if land and water now allocated to qat production is reverted back to cash cropping. Of greatest potential are high value fresh fruits and vegetables for sale to regional markets. In addition, higher levels of value added can be achieved through sales

of processed foods (juices, concentrates, baked goods, preparations, etc.). The prospects of large scale operations are limited, and so efforts should be focused on value rather than volume.

Yemeni producers should not expect to be able to compete on international markets for labor-intensive manufactures. Wage costs and labor resources in Asia effectively preclude the possibility of exports based on labor inputs. However, Yemen could hope to compete in regional markets for certain specialized products, since wage rates are low by regional standards. Examples might include finished consumer goods from components (furniture, large appliances, etc.), packaged goods, specialized textiles and apparel, machinery assemblies, and so forth.

Foreign Exchange-Earning Services

Yemen's long-standing trading tradition has developed institutional capabilities and expertise in managing international trade transactions. Yemen's communications infrastructure is advanced, and the nation's large trading houses are already international in scope. These firms have the capability of expanding further into full-service operations to play the role of South Korea's "chaebol."

Over time and under the proper policy conditions, Yemen's trading activities could be extended and diversified into other service functions, such as transshipment, regional transport, and trade finance. Increasing gains and value added can be achieved in the near term if Yemeni retailers employ strategies to remove single or multiple layers of "middle men" typically involved in trading and distribution systems.

Yemen also possesses the basic ingredients necessary to develop a viable tourism sector. The country's historical heritage, architectural beauty, natural attractions and friendly people provide a solid foundation for tourist interest from both regional and international sources of origin. However, tourism sites and services should be developed with care, in order to preclude environment despoliation and to accommodate the nation's social and cultural objectives.

Production for Local Consumption

Given Yemen's dependence on imports to supply local consumers, numerous opportunities exist for "import substitution." However, Yemen should avoid the introduction or expansion of policy biases which provide artificial incentives for import substitution products. Yemen's markets are too small to bear the costs of trade restrictions, since economies of scale are small. In addition, import barriers simply reinforce incentives for smuggling and other illicit forms of trade.

The list of candidates for potential local production is extensive. Entrepreneurs need only look at consumption patterns to identify possible prospects. These might include processed foodstuffs, pharmaceuticals, household chemicals such as soaps and cleaning materials, personal hygiene products, and so forth. Local ventures might find profitable opportunities by working gradually back as far as possible from finished goods. For example, traders often buy in bulk and then sell smaller quantities locally. These firms might seek to establish "forward linkages" by inputting the final value added to consumer goods.

In addition to finished consumer goods, domestic producers should look for opportunities to achieve "backward linkages," by supplying inputs to existing industries. Numerous manufacturing concerns are operating at low rates of capacity due to lack of inputs from abroad. Surveys of needs for such inputs, coupled with research into official and unofficial imports of inputs, would likely yield prospects for another form of import substitution. However, suppliers must be aware that their products should be of comparable quality and competitive in price in relation to imports.

Developing Comparative Advantages

Private entrepreneurs are in the best position to identify and develop specific profitmaking ventures, since they are familiar with local operating conditions and opportunities. In addition, however, government bodies and private sector organizations should seek to collaborate to enhance and utilize more effectively the general advantages offered by their economy. Several such advantages are present in Yemen.

Development strategies in Yemen should seek to take advantage of entrepreneurial talents and energies of the nation's strong trading sector and tradition. Trading companies should seek to expand their activities as they have in Japan and South Korea, but also to join hands with other smaller firms, which can act as outlets and suppliers, rather than attempt to secure monopolies. The capacity to exchange goods internationally can be extended to other endeavors which offer higher levels of value added. Yemen's business community should attempt to establish and nurture the country's extensive network of citizens living and working abroad. This advantage is particularly strong in region, but also extends to other areas. The "overseas Chinese" have utilized their international networks extensively, to the point where they are becoming a major force in the Pacific Basin region.

Entrepreneurs in Yemen have and should continue to seek opportunities for productive ventures which draw upon the nation's oil and gas resources. Large scale operations such as petrochemical facilities and other capital-intensive operations should be ruled out due to costs and world market conditions. However, smaller scale ventures which use energy or oil and gas derivatives -- particularly those which replace imports or offer employment opportunities -- deserve to be examined closely.

ANNEX G

POLICY ENVIRONMENT FOR PRIVATE ENTERPRISE

This analysis examines the structures and processes of government policies, regulations and procedures in Yemen as they affect commercial activities and the prospects for private sector development. The first section identifies the general policy requirements that underlie strategies to achieve rapid expansion of private enterprise. The second section provides a brief assessment of the institutions, processes and characteristics of the Yemeni policy climate, as it relates to business development. The third section explores identified policy constraints to private enterprise development in Yemen. The fourth and final section presents for discussion a policy assistance strategy for the YES Project.

1. POLICY REQUIREMENTS FOR PRIVATE SECTOR DEVELOPMENT

The collective economic experience of all nations has yielded three powerful lessons that can provide guidance for development practitioners and government policymakers:

1. Those nations which have actively supported the development of private enterprise have consistently achieved higher rates of economic growth and standards of living than countries which have sought to restrain private business and override market forces.
2. Entrepreneurs have proven consistently that they can operate successfully under any set of economic resource endowments and constraints so long as policy conditions are appropriate.
3. In the vast majority of countries, the single most important constraint to economic and commercial development is inappropriate policy structures and processes.

These "experiential" guidelines can be useful to policymakers seeking to design and implement policies, procedures and regulations that will stimulate private sector development. Accordingly, while it is the right and responsibility of the Yemeni Government to set the rules and conditions under which private enterprises operate, it may find the the principles discussed below of interest as it sets about efforts to mobilize local capital and create a more favorable climate for business formation and expansion.

Policy stability. Numerous surveys of business executives are unanimous on the conclusion that above all else, business communities place the highest premium on stability of economic and commercial policies. Dramatic swings and counterswings in policy stances render business planning useless, and entrepreneurs will tend to postpone investment decisions until these stances become relatively certain. If change is required, it should be in the direction of increasing application of market-oriented, open commercial strategies.

Macroeconomic stability. Businesses do not operate effectively in periods of prolonged instability in the form of price inflation, currency fluctuations, interest rate swings, and so forth. Successfully growing economies have been those in which authorities have taken those difficult steps necessary to restore economic stability, even when major interest groups -- including private business -- have opposed those measures because of their adverse consequences in the short term.

Policy and regulatory clarity. In theory, one basic assumption underlying competitive markets is the presence of "perfect information." This condition is never met in practice, and the absence of perfect information in fact leads to profitmaking opportunities. Nevertheless, private enterprise tends to expand more rapidly in an environment in which laws, regulations and procedures are clearly stated. Business decisions are postponed if entrepreneurs are uncertain about the rules under which they must operate.

Nondiscretionary and transparent decisionmaking. As noted above, commercial policies should be clearly enunciated. Perhaps even more importantly, they should be applied equally to market participants. Discretionary treatment creates uncertainty and implies favoritism, whether or not favoritism actually exists. In practice, nondiscretionary treatment means that if preset conditions are met, then individuals or firms are dealt with equally. Policymaking transparency refers to the principle that decisions are reached openly based on clearly understood processes.

Minimum government interference. In public pronouncements, business leaders claim that the climate most suitable to growth is one in which governments take a laissez faire or "hands off" approach to commercial affairs. In private, executives seek government interference in the form of subsidies, protection against competition or other preferential treatment, but government non-interference if interventions work against them. In general, however, the absence of official controls and the application of market prices and forces raise overall efficiency and productivity.

Policy neutrality. Economic theory and practice indicates that the absence of policy biases in favor of one group at the expense of another raises efficiency and growth potential. The introduction of biases leads directly to market imperfections in the form of price distortions. For example, unduly high tariffs protect domestic producers but allow them to operate inefficiently and pass on costs to consumers. Similarly, interest rate controls can lead to negative costs of borrowing, which in turn create an incentive for unnecessarily capital intensive production patterns.

The business policy characteristics identified above represent optimal conditions that are seldom if ever met in the real world. Every country operates on a continuum with regard to each of these conditions, since each position on the spectrum creates both costs and benefits which must be balanced in the overall policy formula. As a practical rule of thumb for decisionmakers in such countries as Yemen, however, the end points of these spectra represent reasonable target points toward which policy structures and processes should move.

II. THE POLICY CLIMATE FOR BUSINESS IN YEMEN

Despite a history that reaches back centuries and even millennia, Yemen has a relatively brief experience as an independent republic. The Imam was deposed during the revolution of 1962, following which Yemen was subject to a decade and a half of political turbulence, including the assassination of two presidents and the division of the country. Under the leadership of President Saleh, the Yemen Arab Republic has enjoyed ten years of political stability and integration of local political forces into an increasingly unified nation state.

While benefitting from political stability over the past decade, Yemen has been subject to significant economic instabilities during the same period. Some have been imposed by natural disasters (earthquakes and droughts) and international economic fluctuations (oil prices, interest rates, etc.) which are beyond Yemen's control. Others have been created from within Yemen, and relate to pressures associated with economic and social transformation. These include rises in household incomes (from migrant labor activities) and consequent upward shifts in consumer tastes followed by reductions in employment opportunities abroad, pressures for government delivery of social services, the discovery of oil and gas reserves, and so forth.

These important changes and forces were imposed on a government and policy structure that was designed for a traditional economy based largely on agriculture and trading. As a consequence, the government has been heavily engaged in efforts to cope with economic and financial instability, which has left limited time and energy to

put into place those institutions and policies needed for diversified commercial activities. Over time, the government and business community have come to acknowledge these requirements and are taking appropriate steps, although additional progress in this area is necessary.

Government Institutions

Governance and policy-making in Yemen are organized according to a relatively standard hierarchical structure. Local and provincial policy matters are administered within eleven regional Governorates (Sana'a, Ibb, Hodeidah, Taiz, Dhammar, Hajja, Sa'adah, Mahweit, Beida, Marib, and Jauf.) National issues are dealt with initially in functional Ministries. Individual Ministers meet formally in the Council of Ministers, which is directed by the Prime Minister and represents the executive arm of the government. The Council of Ministers is served by a series of Supreme Councils organized along substantive lines. The Supreme Councils are essentially inter-ministerial subcommittees of the Council of Ministers which include some outside representatives.

The Prime Minister and his government report to the President of the Republic, who also serves as Commander-in-Chief of the Armed Forces and General Secretary of the People's Assembly. The People's Assembly as currently constituted has authority to amend, reject or propose legislation.

The formal structure of government is supplemented by a group of about twenty public and mixed public/private sector corporations which are engaged in economic activity. Nonfinancial public enterprises include public utilities, manufacturing companies (e.g., cement, textiles), and firms engaged in services such as transportation and distribution, tourism and broadcasting. The most important general trading companies are the Military Economic Corporation (MECO) and the General Corporation for Foreign Trade (GCFT). A description of these entities and public/private sector dynamics can be found in a 1985 USAID-funded study, "Private Sector Assessment: Yemen Arab Republic."

Commercial Policy Institutions

The major government organizations involved in policymaking and implementation include the following. The Ministry of Economy, Supply and Trade (MEST) is responsible for the three of the four most important issues facing entrepreneurs -- import licensing, investment approvals and price controls (Foreign exchange controls are the fourth area of concern to entrepreneurs)

Importers must go to the MEST for licenses. The Ministry administers the system for issuing tenders for five basic commodities: Rice, wheat, sugar, flour and cement. The Ministry

also issues licenses for both food and non-food imports. In addition, MEST sets prices on the goods for which licenses have been granted. All retail outlets (grocery stores, pharmacies, etc.) are then subject to these price ceilings. Import licenses and price controls are in theory, established in accordance with national plan objectives and availability of foreign exchange.

Entrepreneurs interested in investing in agribusiness, industrial or tourist ventures are required to obtain operating licenses from the Ministry of Economy. A major consideration in the approval process is the net foreign exchange costs or earnings the venture will incur over the course of construction, startup and operating stages. Projects leading to exchange earnings hold the highest priority, followed by those which save exchange (import substitution) and finally those which on balance require exchange outlays. In theory, decisions are also based on the quality of detailed feasibility studies, which must be submitted in Arabic.

According to Ministry officials, a total of 57 applications have been made for new ventures in the two years prior to March 1990. Of this total, 30 projects have been approved -- 8 by the Ministry and 22 by the Supreme Economic Council. The Ministry has authority to approve investments of up to U.S.\$60,000. Larger ventures must be approved by the Supreme Economic Council. The investments approved cover a wide range of products, including alfalfa and poultry production, hides and skins, toothbrushes, thermos bottles, detergents, medical supplies, plastic products, ice making and cold storage, juice concentrates, packaged dates, socks, shoes, bags and luggage, and batteries. A number of other projects have been approved but have not yet received financing. These include factories for carpet making, pharmaceuticals, household detergents, dry pens, cigarettes, and carpentry. Ventures that have not been approved are generally low in value added, or are in sectors in which Yemen is deemed to have sufficient capacity. Examples in this category include agricultural, baking and printing ventures.

The Central Bank of Yemen plays a critically important role for private enterprise, since it is responsible for managing the nation's foreign exchange position. In the past, the Central Bank operated a liberal system for acquiring exchange. However, the onset of chronic exchange shortages led to an increasing requirement for rationing. This has exerted a profound impact on Yemen's trade-oriented economy. Other public financial institutions in Yemen, in addition to the Central Bank, include the Yemen Bank for Reconstruction and Development, and three specialized development institutions.

The Ministry of Finance administers the nation's tax system and handles government budgetary policy. Tax incidence on business is considered to be generally reasonable by private sector executives. Major sources of revenue include trade and other indirect taxes, tax

and nontax receipts from oil, and interest and revenues from government enterprises. These funds are supplemented by considerable but declining amounts of foreign assistance grants.

The Central Planning Organization (CPO) is responsible for preparing development plans and coordinating overall government policies. The CPO serves as arbiter over questions of national development, and hence reviews any major policy change initiatives.

The Supreme Economic Council is chaired by the Prime Minister and presents findings and recommendations to the Council of Ministers on economic and commercial matters. Membership on the Supreme Economic Council consists of the Prime Minister and his Deputy, the Chairman of the CPO, the Ministers of Economy and Finance, the Governor of the Central Bank, and the Chairman of the Yemen Bank for Reconstruction and Development.

Decision-Making Processes

The official process for enacting new legislation is relatively straightforward. Initial deliberations for law changes take place in line ministries, which solicit views on particular issues from relevant interest groups (within and outside government). Once a working consensus is achieved, the ministry involved sends draft legislation to its responsible Supreme Council, which in turn submits the draft initiative to the Council of Ministers. If the new law has consequences for national development, the "advice and consent" of the Central Planning Organization will have been obtained by that time.

The Council of Ministers reviews, amends and ultimately approves the draft, and then submits it to the People's Assembly, where it will be openly debated. As noted above, the People's Assembly has authority to accept, amend or reject the draft. If the legislation is passed, it will be transmitted to the President for signature, be published in the official gazette, and become law.

A significant example of this process at work is the current initiative to revise Law #18 of 1975 on investment. The need for a new law to streamline procedures and ease controls has been debated for several years. USAID provided expert technical assistance to the Ministry of Economy, by drafting reform legislation. The legislation proceeded through the process described above, and is now being completed by the People's Assembly. A new law and Investment Promotion Authority is expected to be implemented within several months.

While the formal process of enacting laws is clearcut, the system of reaching decisions on and administering existing commercial regulations and policies is more problematic. The following general characteristics of decision making were voiced with a high degree of consensus among both private and public sector leaders interviewed by the project design team.

First, administrative procedures are obscure and seldom presented comprehensively or coherently to those affected by the procedures. The locus of decision making authority within any given ministry, for example, is not well known even within the ministry itself, much less to the outside public. As a result, entrepreneurs seeking licenses or approvals often face a mystifying bureaucracy that forces entrepreneurs to expend considerable time, energy and patience. In short, administrative structures are arcane and decision making structures are not transparent.

Second, government policy-making tends to be carried out on an ad hoc basis. In part, this stems from the strong tradition of using a consensus-driven method of governance in Yemen. This culturally grounded approach is understandable and fully appropriate from a social and political standpoint. However, in the context of modern commercial practices, it is viewed as random and discretionary, particularly by those who lie outside the inner circles of the process. A specific example commonly cited is that policies and regulations often discriminate against small businesses which are given little voice in decisions that affect them.

Third, policy and regulatory structure is described as one which not only involves an excessive number of actors, but also requires approval by the highest levels of government for even the least consequential of decisions. The Yemeni system is based on the admirable feature of allowing everyone access to high level leaders. Derived from the centuries old structure of village governance, this practice consumes enormous amounts of time for government leaders. The result is delays in decisions being reached, since supplicants naturally want to deal with the person in charge, and since authority cannot be delegated. In addition, leaders have little time to allocate for the important tasks of designing and implementing general policy strategies.

These attributes of policy-making in Yemen are far from unknown in other nations, and indeed have their merits. Nevertheless, they are inimical to the conduct of private sector trade and investment in a highly competitive world economy. Concerted efforts are needed to craft and implement procedures which provide a better balance between the needs of private enterprise and the requirements of Yemen's social and political system.

III. CONSTRAINTS TO PRIVATE ENTERPRISE DEVELOPMENT

The commercial and "physical" constraints to private enterprise development in Yemen are well known and are described in Appendix E-1. These include shortages of arable land, water and natural resources, a high-cost production environment, a scarcity of foreign exchange, lack of management skills in the labor force, and so forth. These limitations are "given" conditions that must be accommodated or changed over time.

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This section explores the "man made" constraints caused by inappropriate policies. As opposed to commercial bottlenecks, these problems can be alleviated or removed by government authorities working in tandem with private sector organizations. Policy reform is never easy, since existing policy structures are known and almost always benefit constituencies which for reasons of self interest resist change. While reforms should be accompanied by implementation strategies to share the costs of change equitably, they nevertheless can and should lead to "win-win" situations in which all actors benefit.

Policy constraints facing private enterprise in Yemen have been identified in a number of recent reports. For example, the "Report to the Minister of Economy of the Yemen Arab Republic on Obstacles to Investment in the Y.A.R. and the Proposed Draft Investment Law," prepared by John Bentley and Ronald Wolfe, presents a list of specific investment disincentives. This list serves as a useful starting point for analysis.

1. The pervasive system of government controls over economic and financial transactions, including import licensing, channelling all foreign exchange transactions through the Central Bank, interest rate limitations, and price controls, all of which encourage consumption and smuggling.
2. The size and financing of the government deficit.
3. Disincentives for bank lending to investment projects.
4. The concept that every investment project is prohibited unless it is specifically permitted ("guilty until proven innocent").
5. Lack of stability in enforcement of existing investment law and investors' rights.
6. Direct taxes on capital, including the proportionate stamp tax, the zakat and the equivalent tax on foreigners.
7. The proportionate stamp tax on the value of contracts.
8. Excessive discretionary power over licensing and lack of a stable, clear and predictable set of rules for investors and officials alike.
9. Lack of a single organization with whom investors can deal.
10. Difficult procedures to form and operate shareholding and limited liability companies.
11. Uncertainty as to which law prevails when another existing law conflicts with the Investment Law.

12. Lack of a well developed banking and savings system.

These constraints were noted as being addressed by the enactment of a new investment law. The report went on to describe the nature and impacts of additional policy impediments that should be dealt with outside of the proposed investment law.

1. Price controls encourage consumption and waste, cause shortages and inflation, and directly discourage production and investment.
2. Exchange controls encourage imports and consumption, but discourage exports, production and investment.
3. Import licenses, high customs duties and other import restrictions encourage smuggling and consumption and cause inflation while blocking production and thereby discouraging investment and depriving the government of customs and tax revenues.
4. Banking controls on deposits cause speculation against the Yemeni Rial and capital flight, and discourage productive investment.
5. Interest rate limits on loans discourage banks from making long-term loans to investment projects due to their high cost of funds.
6. Government deficits and deficit financing increase domestic liquidity and produce inflation without increasing production.

In January 1990, the Federation of Yemen Chambers of Commerce and Industry issued an economic report to the Assembly. This report presented a comprehensive agenda for commercial reforms from the perspective of the Yemeni business community. The policy constraints identified include the following:

- Controls on imports, particularly purchases of raw materials, machinery and spare parts.
- Inefficient administration of import licensing.
- The ban on foreign exchange operations by commercial banks and money changers.
- New restrictions on new venture establishment.
- Delays in the introduction of the new investment law.
- Contradictions between laws passed and actual actions taken.

- The lack of priorities (and incentives) for industries and exports to be promoted.
- Decision-making delays by the Supreme Economic Committee, which spends most of its time solving individual problems.
- Confusing and counterproductive banking policies.
- Excessive delays in the issuance of visas for foreign visitors.
- Monopolistic practices of government companies.

In addition to these agendas, international financial institutions have recently prepared economic assessments and identified macroeconomic policy problems. For example, expansionary fiscal policies and rial appreciation in real terms (prior to the devaluation) have had the effect of encouraging imports and consumption and decreasing the competitiveness of exports. The application of trade and exchange restrictions contribute to inflation by restricting the supply of goods and reinforcing the oligopolistic positions of government and large private trading operations. Domestic and international financial policies discourage inflows of workers' remittances. Trade restrictions and policy-induced subsidies to capital goods imports introduce distortions favoring capital intensive production which leads to inefficiency and reduces the absorption of labor. A UNDP project to carry out a detailed survey of specific problems confronting Yemeni firms is currently under way.

Finally, a series of sectoral studies prepared on behalf of USAID diagnosed sector-specific constraints and identified potential areas for policy reform. For example, "A Study of the Financial System of the Yemen Arab Republic" (1987) presented a case for introducing new forms of competition in the banking sector, expanding financial services, restructuring monetary policies, utilizing pension fund assets as a source of productive capital, and overhauling the system of bank supervision.


The "Private Sector Assessment: Yemen Arab Republic" explored constraints to private sector growth and suggested a number of policy and program initiatives. The report, "Yemen Arab Republic Agribusiness Development Problems and Potential" (1988) assessed the prospects for agribusiness and noted possible reform initiatives. These include the reduction of government participation in commercial activities, liberalization in the regulatory environment such as a reduction in approvals required, and adoption of fiscal, legal, monetary and trade policies that are supportive of a stable investment climate.

In short, there is no dearth of diagnoses and prescriptions for policy reforms in Yemen. Many are solidly documented and sound in presentation. The breadth and depth of these recommendations are of sufficient magnitude to frustrate the most reform-oriented policymakers. However, public and private sector leaders can take some solace in the fact these policy problems are far from new and have been experienced widely throughout the world.

An evaluation of the recent policy reform experience in Yemen yields two inter-related conclusions that have important implications for the YES Project. First, the Yemeni Government is taking steps to improve the policy climate, such as the recent currency realignment and the initiative to enact a new investment law. This reflects an acknowledgement on the part of policymaking authorities that serious problems do exist, as well as a growing commitment for appropriate changes in policy structures. Second, by far the most productive recent effort in the area of policy reform has been the assistance provided by USAID in the formulation of a new investment law. The critical element underlying this success was the fact that the assistance was initiated in a request by the responsible Yemeni authorities, rather than by USAID itself. In other words, USAID was responding to a need identified by Yemenis themselves, rather than attempting to impose an externally determined reform activity. The policy assistance was "demand driven," and hence represented an intervention carried out at the right time and at the right place. This approach should hence be followed by the YES Project.

IV. A POLICY ASSISTANCE STRATEGY FOR THE YES PROJECT

Following the conclusion that policy assistance be extended on a "demand driven" basis, it would be inappropriate to specify at the outset the functional policy areas to be tackled by the YES Project. Project personnel should work closely with Yemeni authorities to identify "windows of opportunity" to provide timely and responsive assistance to policy-making institutions. The Project design team has concluded, on the basis of similar initiatives in other countries, that the most effective policy assistance efforts are those carried out on behalf of and under the direction of host country authorities. These "clients" include not only government agencies, but also private sector organizations which seek to engage in policy dialogue with their governments and present detailed policy reform recommendations. For this reason, the YES Project should reserve or allocate a portion of the policy assistance being provided for use in developing the capacities of the Federation and individual chambers of commerce and industry to engage in dialogue with the Government.



Accordingly, the design team proposes that no fixed policy assistance agenda be incorporated into the YES Project plan. Instead, the strategy should be for the policy assistance component to be flexible and responsive to Yemeni-determined requests. These requests will be initiated by the following entities. The primary "clients" will consist of the Ministry of Economy, the Yemen Federation of Chambers of Commerce and Industry, and individual chambers of commerce and industry. These will be supplemented by other relevant policymaking bodies, including the Central Planning Organization, the Central Bank of Yemen, and the Ministry of Finance.

Under the procedures proposed for policy assistance, a draft policy agenda will be prepared in June or July of each year by the Project Secretariat for review by the Advisory Committee. The policy agenda will include both specific studies that are proposed, as well as specifying more general areas of policy interest. The agenda will be included in the Annual Work Plans developed for the Policy Assistance module and will establish the policy assistance activities to be undertaken in the coming year. The Project Secretariat will have responsibility for developing terms of reference and selecting individuals or institutions to provide the assistance.

While the design team recommends against the selection of a predetermined set of issues for policy assistance, the requirements of project coherence and consistency dictate the need for two operational elements to guide the policy assistance activities -- the employment of established selection criteria to evaluate proposals for policy assistance, and the organization of policy assistance efforts under a small set of policy issue "clusters."

Selection Criteria

Experience has shown that the objective of project flexibility can lead to lack of coherence and the pursuit of interventions on an ad hoc basis. An effective technique to overcome this problem is to establish a series of criteria which serve as tests that must be met by proposals for inclusion in the project. This technique has been used in the development a similar USAID project in Thailand, the Joint U.S.-Thai Business Organization (JUST Business), in which project activities are determined by a joint public/private sector advisory board.

The criteria presented below are intended to guide YES Project activities and serve as a basis for precluding extraneous initiatives. They also represent a focal point for the policy work of the YES Project, indicating the goals set forth by the Advisory Committee. As such, this list is indicative and ultimately would be reviewed, amended and approved by the Advisory Committee itself.

To be included as policy assistance activities funded by the YES Project, initiatives should meet the following selection criteria:

- o The proposals should lead to concrete reforms (defined as laws, policies, rules and procedures) which improve the economic and commercial climate for private enterprise in Yemen.
- o The proposals should be directed at addressing and overcoming market failures, defined as policy constraints and resulting distortions which constrain the capacity of market signals and forces to operate.
- o The proposals should focus on issues of direct interest to private sector entrepreneurs. While the project requires active collaboration of the public and private sectors, the focus should be on problems raised directly or indirectly by business, rather than on problems primarily affecting government entities.
- o The proposals should at a minimum not lead to policies or procedures which discriminate against small business, and preferably improve the ability of small business to compete. Most policy constraints affect large and small firms alike, and so reforms will benefit all. Reforms should at least be neutral and provide equal access to commercial opportunities, and to the extent possible remove existing biases against small business. This also includes discriminatory practices affecting women owned or operated firms.
- o The proposals should seek reforms which stimulate investment and trade activities in line with Yemen's long-term comparative advantages. To assist Yemen in achieving self-sustained economic growth, priorities should be placed on policy changes which enhance ventures that develop and utilize the nation's resources and comparative advantages more effectively.

These selection criteria should be refined and confirmed by the YES Project Advisory Committee, which might identify additional tests. The fundamental goals of the criteria are to establish operating principles and to set priorities for policy assistance initiatives.

Policy Clusters

The large number of policy constraints summarized above and elicited during interviews by the design team cover a wide range of issue areas. Developing a policy "agenda" for the YES Project on an ad hoc basis would lead to a lack of coherence and lose any notion of continuity. On the other hand, the benefits of a "demand driven," flexible policy component far outweigh the merits of a predetermined, fixed agenda.

The strategy proposed represents a balance between flexibility and coherence. The plan calls for policy assistance to be organized according to a limited set of "policy clusters." As presented below, these clusters are sufficiently broad in scope to cover a wide range of policy issues. Each was noted extensively as being important to the business community. In addition, each cluster encompasses a range of concrete constraints to private enterprise. If material progress is achieved in these areas by the end of the project, the policy climate will have become considerably enhanced.

Under each policy cluster, YES Project assistance can be offered for any combination of the following dimensions of policy formulation and implementation: Formal laws and regulations, comparison of alternative policies, institutional arrangements, implementation strategies, and linkages with other policy issues. The following policy clusters are proposed for consideration by the YES Project Advisory Committee. The clusters are presented in roughly descending order of priority. The priorities are based on the importance attached to issue areas by business and government leaders, and on an objective assessment of an appropriate phasing of reforms needed to stimulate private enterprise development.

Investment policies. The new investment law is in the final stages of enactment by the YARG. USAID has already provided useful technical assistance. Once the law is put into effect, a significant amount of work remains to be done on implementation procedures and institutional arrangements, particularly those related to the proposed Investment Promotion Authority. In addition, operational linkages between the investment law and other commercial policies need to be clarified.

Trade policies. Yemen's trade policy regime is currently being dominated by the nation's chronic shortages of foreign exchange and government revenue. Ultimately, the removal of import licensing will depend on the achievement of better balances in international accounts (i.e., increases in exports and capital inflows, and or reductions in overall imports). Similarly, reductions in tariffs will require rises in other forms of tax revenues. Nevertheless, a rationalization in Yemen's trade policy can work to stimulate investment in foreign exchange earning or saving activities. This might include a shift from licenses to tariffs; tariff adjustments to reflect premiums paid for smuggled goods; carefully administered priorities or preferences for imports of capital equipment, spare parts, components and raw materials for local production; open auctions for licenses for some categories of goods; or allocation or rationing schemes which match overall foreign exchange availability with openly determined priorities for import categories. It is likely that considerable attention in the trade policy area should be given to the actual administration of trade rules and regulations.

Financial policies. This cluster is broad in scope and encompasses both domestic and international financial strategies. In the domestic arena, Yemen needs to develop policy structures which (1) provide incentives for local savings to be drawn into the formal financial system, (2) provide incentives for borrowers to seek loans for productive enterprises from domestic financial institutions, and (3) induce banks to take deposits, make loans and carry out financial intermediation functions according to appropriate risk/reward calculations. Near-term opportunities exist for the aggregation and deployment of existing pools of funds, such as idle balances and pension fund resources.

From the standpoint of international finance, Yemen needs to design strategies to (1) attract through incentives rather than decrees foreign exchange balances, including workers' remittances, into the formal system, and (2) ensure that the majority of foreign exchange resources are directed toward productive rather than consumptive activities. The system is now biased toward exchange hoarding (locally and abroad) and toward consumption. Yemen has the potential for developing viable credit and capital markets. This will require reforms in financial policies and a restructuring of institutional arrangements, particularly the operations of government-owned banks.

Pricing policies. The government currently administers a system of price controls over commodities deemed important to the population's welfare and standard of living. Current policies encourage consumption and discourage local production. While price controls may be desirable from a social or political standpoint, they are ultimately counterproductive as economic instruments. As investment, trade and financial policies are addressed, it would be useful to reexamine the costs and benefits associated with price controls. Numerous countries have adopted strategies which effectively balance gradual decontrol with social imperatives, eventually leading to systems that benefit both consumers and producers.

Small business policies. Yemen's current profile of business organization is characterized by domination of a select number of large trading firms operating side-by-side a large number of small companies which are operating close to the margin of existence. Policy structures tend to be biased against small business on either a de facto or a de jure basis. Women owned or operated businesses are particularly disadvantaged, which is unfortunate in view of their potential. These biases have created social and political tensions, and more importantly have retarded economic growth. Yemen needs to review existing

policies and to develop strategies to elevate small businesses into the category of middle sized enterprises. This will fill a major gap in the commercial structure and lead to greater competition and private sector development.

Policy implementation and administration. The administrative dimension of commercial policies could and should be addressed under the rubric of each of the policy clusters described above. However, government and business leaders interviewed often highlighted the need for improvements in this area. Often cited was the view that policies were adequate on paper but were implemented in an inefficient, discretionary or random manner. Accordingly, it might be useful for the YES Project to initiate public/private sector dialogue on the issue of policy execution in theory and in practice. Such an activity could increase awareness of and sensitivity to the need for efficient administration of commercial policies.

As noted previously, the policy topics to be undertaken under the YES Project would be determined by the Advisory Committee, with the endorsement of the government agencies involved. The agenda itself would be specified, modified and expanded over time. The list of policy clusters described above is only indicative of the major issues affecting private enterprise development. The policy assistance components would include a range of activities supportive of productive policy dialogue and reform. These would consist of the following:

- o Provision of technical assistance to review policies (impacts, costs and benefits of options, experiences of other countries, etc.) on behalf of government agencies;
- o Provision of expert advice to design policy strategies and draft proposed legislation and implementation procedures;
- o Assistance to business associations to prepare policy briefs on behalf of their memberships;
- o Organization of seminars and workshops on commercial policy concerns and options on behalf of the YES Project Advisory Committee; and
- o Short-term training courses and exposure tours, held both in Yemen and abroad, for relevant public and private sector leaders to provide up-to-date information on appropriate policy development and implementation strategies.

ANNEX H

BUSINESS MANAGEMENT TRAINING INSTITUTE: A PROGRAM TO MEET
BUSINESS TRAINING NEEDS IN YEMEN

I. BACKGROUND

This Annex is based largely upon a report prepared by Team International following a USAID-sponsored visit to Yemen in 1989 to study the feasibility of establishing a private sector training program in the country.

Although it was originally envisaged that the Faculty of Commerce would play an active role in the development and implementation of the program, the findings of the Team report concluded that due to an already heavy work load at the University, the Faculty would play a much smaller role in the new training institution, focussing primarily on providing guest lecturers to the new institute when their schedules permitted.

II Estimating Effective Demand and Needs

Yemen's economic development has been built on a thin layer of business and managerial skills. The economy grew at a high rate during the 1970s but many observers reported that the high growth pattern exhausted all the available human resources. Larger firms are heavily dependent on both expatriate managers and in some cases even expatriate unskilled labor.

Yemen's private sector potential for future productive growth is limited in two ways:

1. Existing firms of all sizes suffer shortages of employees with essential business, managerial, and technical skills.
2. There are insufficient numbers of entrepreneurs with the skills to start and expand productive enterprises.

In order to quantify this need for business skills enhancement, it is first necessary to define the target population. It is important to note that for this project the focus is on the private business sector, and not the private sector at large which would include persons such as farmers, craftsmen, traders, lawyers doctors, etc. They would not be considered as part of the target business population for this

project, unless they endeavor to organize themselves in the form of a business firm or unit. Taking these criteria into account, two broad target groups can be identified:

1. A primary target group: practicing business managers whose business and management skills would be improved by the training services offered by the new institution.
2. A secondary target group: potential managers and entrepreneurs whose successful entry into either management of an existing firm or management of a new business would be facilitated by the training center.

The first group is a target group whose members can be fairly well identified, based on registries that exist with the Chambers of Commerce and the Ministry of Economy, Supply and Trade (e.g. the Industrial Registry). The Industrial Registry relies heavily on an industrial survey that was conducted in 1984. It provides quantitative data on firms in the industrial sector classified according to the number of employees per firm:

1. small firms: less than 5 workers
2. medium firms: 5-9 workers
3. large firms: 10 or more workers

The number of small industrial firms was estimated at over 4000 and were described as small workshops engaged in a combination of simple crafts, services, and trade. Table 1 below presents some basic information on the large and medium units covered by the survey:

Table 1:
Size Distribution of Medium and Large Enterprises*
(Source: 1984 Industrial Survey)

<u>Size</u>	<u>Number of Firms</u>	<u>Total # of Workers</u>	<u>Ave. # of Workers</u>
medium	239	1,889	8
large	107	12,939	121
Total	346	14,828	43

* Note: Excludes mining, electricity generation, and water distribution

Although detailed training demand surveys of private sector firms were not carried out by the consultants from TEAM International, they made reasonable assumptions concerning the level of demand based on visits to a small sample of firms and based on the above data on the population of industrial firms from the Industrial Survey. Assuming a medium sized firm would have two potential trainees and a large sized firm 10, the total number of potential trainees would be about 1550. Allowing for the projected growth in the manufacturing sector from 1984 to 1991, as estimated by the Third Five-Year Plan, the estimate of the lower limit of the potential trainees from the manufacturing sector is about 2000. This includes only the primary target group described above, not the potential managers and entrepreneurs, and small business managers. If this group is included the population of individuals needing business training would be about 4000.

Having presented a rough estimate of the perceived need for management training in the manufacturing sector, it is now important to attempt to transform the perceived need into an estimate of effective demand. The size of the initial effective demand would be much lower than the perceived need for training.

Several factors point to this conclusion:

- o Initially trainees will be skeptical of the benefits to be derived from the training Institute since the program will not have had any previous reputation for quality or relevance.
- o Charging of fees may deter some firms initially from participating in the program in that they may be used to the idea that the government or donors pay for all the costs of training.
- o Some firms are reportedly reluctant to pay for training since there is no guarantee that the trainee will not utilize his new skills to find a higher paying job at a new firm.
- o The generally thin layer of available qualified human resources in all areas, while generating a high level of need for training, makes it difficult to release personnel to participate in training programs.

For the above reasons it will be important for the Business Management Institute to actively stimulate the demand for training. Short and topical seminars could be an important vehicle to achieve this. It will be important to establish the relevance and credibility of the Institute early in its life. It must be efficient and performance-oriented, just as it will be teaching managers to be. The Institute must also be cost-effective so that it does not price its services out of the market.

III. Existing Opportunities and Alternative Approaches

At present there are several existing programs that are attempting to help fill some of the gaps in skills in the private sector in Yemen. For example, Sana'a University is offering baccalaureate and Masters degrees in business, economics, and commerce primarily for new entrants to the labor market. USAID is helping meet short-term training needs of private sector firms by setting aside funds for the firms' employees to participate in different short courses offered in nearby countries. Other donors offer different training opportunities, and several donors have programs that provide technical assistance to private firms that includes on-the-job training.

It has become increasingly clear that a new approach is needed to provide more practical business and managerial skills to various segments of the private sector. USAID, for example, reports the following problems with its present and past private sector training programs:

1. Trainees have been drawn only from larger, more sophisticated firms. Skills enhancement for entrepreneurs and employees of larger firms has been neglected. Many trainees have been sent to the management training institute in Jordan, but the training was appropriate for only the most educated individuals from the private sector in Yemen.
2. USAID depended on the Federation of Chambers of Commerce and Industry for nominees. The Federation is not equipped to do this on an ad hoc basis. It does not have staff members expert in training, and few if any of the Chamber members have training officers or training plans. It is not surprising that few trainees have been nominated in a timely manner. Only a small portion of USAID private-sector training funds have been used.
3. Sending trainees overseas proved to be costly for USAID. Many more might have benefited from the available resources if they had been used to provide training in-country.
4. The USAID training program has not been self-sustaining. It has been entirely dependent on donor support; no local institutional capabilities have been built, and no mechanisms have been created to generate revenues (fees) for the training that is being provided.

IV. Purpose

In order to overcome the problems associated with the private sector training approaches described above, an in-country training program was proposed. The proposed Business Management Institute (BMI) has long-term, medium-term and short-term objectives:

1. Long term: To improve the quality of life of Yemeni citizens.
2. Medium term: To strengthen private enterprises, the private sector, and the contributions of the sector to national development objectives.
3. Short term: (A) To improve the business and managerial skills of Yemeni business leaders and their employees; and (B) to expand the private sector through facilitating the successful entry of new entrepreneurs into productive activities.

V. Strategy

A five-fold strategy for BMI has been proposed to meet the objectives outlined above:

1. Responsibilities for recruiting and training members of the private sector will be given to BMI. The new training organization will be structured in such a way as to give it incentives to perform well.
2. Training courses will be tailored to the demands and needs of different segments of the Yemeni private sector. Although certificates will be awarded to those who complete specific courses, this is neither a diploma nor Master of Business Administration Program. It is anticipated that fairly narrow, practical courses of about 6 to 20 hours will be offered.
3. The private sector will have a major policy role in establishing training priorities and in providing support for this program. This will be accomplished in several ways, including the creation of an Advisory Committee to the YES project.
4. The training program will become self-supporting through charging appropriate fees and other fund-raising means.
5. Although the BMI will be responsive to the market for training, mechanisms (e.g. cross-subsidization) will be developed to meet priority social objectives (e.g. providing short programs to encourage and develop entrepreneurialism in productive sectors).

VI. Demand Driven Approach

The training courses offered will be based on demand-driven specifications and not a pre-conceived supply-driven approach. This will enable the program to be tailored to the actual needs of the private sector and adapt to the ever-changing needs of the market. Surveys will be undertaken each year to gauge the private sector demands for training. Moreover, since the Institute will be required to charge fees for its courses, only those courses for which there is a proven private demand will be retained. In addition, other techniques will be used to determine the extent to which courses offered are meeting the needs of the private sector such as course evaluations, and training monitoring and evaluation. The Institute will also utilize other market indicators of management training needs by tracking advertisements for senior level business positions to estimate what the are the most scarce business skills in Yemen.

An initial estimate of some of the private demand for training was made by TEAM International, based on their discussion with businesses of the types of problems that the firms are facing. The problems most often mentioned include:

- low levels of labor productivity
- high labor turnover
- low levels of machine productivity
- high maintenance costs
- lack of productivity and quality standards
- having to employ costly expatriate managers

Based on these problems, training possibilities were discussed which might help overcome some of the major problems. Some of the programs which might correct these problems include:

- Personnel Management
- Finance and Cost Control
- Bookkeeping
- Plant Management
- Management Information Systems
- Quality Control

Detailed demand surveys would be undertaken to identify specific training needs of the private firms and the curriculum would be tailored to meet their needs throughout the life of the project.

VII. Targeting of Women

Whereas women are not heavily represented in the management of existing firms, many women may desire to acquire appropriate managerial and entrepreneurial skills if the opportunities existed. For this reason, the proposed training program will attempt to target women's groups such as the Women's Association in Taiz and offer appropriate training to meet their business needs. Some indicative course ideas which might be appropriate include:

- Starting a New Business
- Finding Access to Credit
- Marketing and Sales Management
- Procurement

These and other courses will be introduced to women business leaders and entrepreneurs. It will be important to target this substantial segment of the population as beneficiaries of the training program. Demand surveys will be designed to ensure that the needs of women are studied and that appropriate courses and programs are tailored to meet their needs.

VIII. Curriculum Proposed to Meet Demand

Although the curriculum will be adjusted during the implementation of the program to fit the actual demand and requirements of companies, a core curriculum is proposed in this section to set the broad parameters of the program to facilitate start-up. The curriculum will then be refined and adjusted over time in line with needs.

During the initial start-up period, the curriculum will concentrate on basic courses which are likely to have a wide audience. These include fundamental management and behavioral skill courses, as well as basic functional skills in accounting, finance, marketing, production, and personnel development. Starting in the second year, more specialized courses such as procurement, contract negotiations, cost accounting and management information systems could be introduced. Starting from the third year, as the Institute develops a better technical capacity, market knowledge, and a credible image, it can add any number of new courses to fit demand.

All courses, except for the top management course, will be up to two weeks. It will be recommended to trainees that they take the basic management course before they take any of the functional skills courses. Trainees who complete the basic management course in addition to one functional course, may participate in Advanced Performance Improvement Workshops which may be introduced starting in the third year.

All the professional staff will be involved in training delivery. In the first three years, expatriate trainers will play a leading role, gradually encouraging increasing participation of Yemeni trainers. Starting in the fourth year Yemeni trainers would be fully responsible for delivering and managing the training program, although this does not preclude the need to call upon expatriate expertise in new or unfamiliar areas of training.

Due to the emerging nature of management training in Yemen and the need to adjust to effective demand, the program will be flexible in deciding which courses to offer, where and when. Below is an outline of courses that may be delivered in the first three years. Additional courses will also be offered to meet emerging demand. All courses are anticipated to require up to 50 hours of training, except for the first which requires 25:

- A - Business Management Skills for Top Management
- B - Business Management Skills for Middle Management
- C - Plant Management
- D - Marketing and Sales Management
- E - Business Finance
- F - Personnel Management
- G - Industrial Cost Accounting
- H - Procurement
- I - Contract Negotiations
- J - Management Information Systems

In addition to the core courses, a series of one-day management seminars directed at enterprise owners and top managers will be held. These seminars will concentrate on current affairs of topical interest to the business community in Yemen. In addition to their intrinsic value to participants, these seminars should serve a promotional purpose by enhancing the credibility of the Institute in the eyes of business leaders. The following are illustrative topics for the seminars:

- Approaches to accessing and evaluating investment opportunities in Yemen
- Financing new industrial ventures
- Accessing foreign capital and joint venture partners
- Accessing foreign technology
- Strategic approach to penetrating competitive world markets

These and other topics can be decided during program implementation depending on actual interest of the Chambers memberships.

IX. Pedagogical Approach

The methods of teaching used in training at the Institute must be chosen to fit with:

- the needs and interests of trainees;
- their intellectual background;
- their age and practical experience; and
- the social and cultural background.

The traditional university lecture method used for teaching would not be suitable for the trainees envisaged for this program. Since many of the trainees have been away from school for a long time, lectures will be replaced with short talks using visual aids extensively; concrete examples from the trainees work environment should be given and no complicated theories presented. Simplified Yemeni or adapted case studies should be used instead of complex foreign cases; simple notes and guides should be recommended instead of textbooks. The emphasis will be on participatory training methods to ensure the maximum level of interest and understanding of the trainees.

It is realized that most of the participatory methods outlined above have been developed in western countries, particularly the United States which has significantly different social, educational, and cultural characteristics from Yemen.

Nevertheless, insights gained from the experiences of many management training programs in developing countries have confirmed that such methods can be highly successful when introduced with adequate cultural sensitivity and allowing for adjustments to the local environment.

In all cases the training materials should be adapted to suit the Yemeni culture and business environment. At the same time the Institute must be careful not to "typecast" the existing level of management as so unsophisticated that outdated management techniques will be taught. It should always be remembered that the new Institute will be starting from the existing level of skills and encouraging change and improvement.

X. Schedule for the Development of the Program

The development plan for the Institute is based on the premise that the program is new and experimental. There have been no other private sector management institutes of its kind started in Yemen. At the same time resources are very limited for the establishment of the Institute. For example, no funds are programmed within the scope of this project for the establishment of permanent building for the Institute; instead the Institute will utilize the existing office space and classrooms offered by the Chambers of Commerce. If the training program expands, however, it may grow beyond the proposed physical resources to be made available by the Chambers.

In order to accommodate the potential changing resource needs of the Institute, a mid-term evaluation is planned at the end of three years. It will assess the progress to date of the Institute and make recommendations as to whether the Institute's level of activity justifies further expansion, including the establishment of separate facilities.

Because of the pilot nature of the proposed training program, initially the development program will focus on the first three years. After the mid-term evaluation, the management training program proposed for the remaining four years of the YES project will be elaborated.

The main emphasis of the initial three-year development program planned for the Institute will be aimed at institution building. Therefore the basic criterion to judge the effectiveness of the Institute is the extent to which it contributes to the building of the Yemeni staff and to the training materials. A possible schedule of activities for the first three years is outlined below:

Table 2
Three-Year Development Program

A- Course Delivery

Courses Offered	1st Yr	2nd Yr	3rd Yr
	Number of Training Weeks		
Business and Management Skills (Top Mgmt)	3	3	3
Business and Management Skills (Middle Mgmt)	6	6	6
Plant management		4	4
Marketing management		4	4
Financial management		4	4
Personnel management		4	4
Industrial cost accounting		4	4
Procurement		2	2
Contract Negotiations		2	2
Management Information Systems		2	2
Other courses (Based on demand)		2	12
Total number of training weeks	9	37	47

B. Other Activities

Activity	Timing
Recruitment of Staff	Months 1-3
Demand Survey	Months 4-6, 23-24
Preparation of Training Materials	Months 2-12
Internal Staff Development	Months 2-36
Internal Evaluation	Months 12, 24
AID Evaluation	Months 32-34

XI. Staffing and Resource Needs

The quality of the professional staff is the most important determinant of the effectiveness of management development institutions. It is estimated that during the three years the Institute would need at least four full-time trainers. Additional trainers would be needed to teach specific courses on a part-time basis. The main sources of prospective professional staff for the Institute are:

- 1) Members and former members of the Faculty of Commerce at the University of Sana'a.
- 2) Yemeni managers from the private sector who have substantial managerial experience and when possible a masters degree in a management-related field.
- 3) Yemeni recent graduates of in a business-related field from credible institutions abroad, or Yemeni professionals returning from overseas who have suitable experience in management.
- 4) During the early stages of institution, it is anticipated that experienced expatriate trainers would also be needed to help train Yemeni trainers and to deliver training.

ANNEX I

INSTITUTIONAL ANALYSIS

The purpose of this analysis is to examine the structures and capacities of the principal organizations designated to play major roles in the YES Project, and to assess the appropriateness of the institutional strategy proposed. An additional task of this analysis is to explore the viability of alternative organizations and structures.

The objective of the YES Project is to promote private enterprise development in Yemen. As such, the Project plan includes interventions in the form of policy assistance, investment and trade promotion, and enhancement of productivity through technical assistance and training.

In the course of project development, two institutional assumptions guided the method of approach determined. First, functional differences among the three components dictate a separate institutional approach for each. In other words, it is neither appropriate nor feasible to consider a single organization to be responsible for carrying out all project components. Second, while the YES Project is designed to aid the private sector, effective project implementation requires the active participation of both business and government organizations. This is because government plays an active role in commercial activities in Yemen, and to a certain extent the major constraints to enterprise growth are due to government policies and procedures.

The design team reached a finding that both of these assumptions are valid. The successful achievement of YES Project goals and purposes depends on active participation by both public and private institutions.

The institutional strategy proposed for the YES Project calls for each component to include one organization to which primary responsibility is assigned, and which serves as a locus of operations, supplemented by supporting activities by other organizations. The primary organizations by component are:

Policy Assistance. The principal point of contact will be the Ministry of Economy, Supply and Trade (MEST), particularly the proposed Investment Promotion Authority, which will be directly or indirectly linked with MEST. However, strong supporting roles, particularly the initiation of technical assistance requests, will be played by the YES Project Advisory Committee, the Federation of Yemen Chambers of Commerce and Industry (FYCCI), individual Chambers of Commerce and Industry, and government ministries responsible for specific policy areas, especially the Central Planning Organization, the Ministry of Finance, and the Central Bank of Yemen.

Trade and Investment Promotion. The primary locus of YES Project activity will be the proposed Investment Promotion Authority (connected to MEST), since this agency is charged with promoting private investment in Yemen. Important supporting efforts will be located in the FYCCI and the regional Chambers of Commerce and Industry, each of which will provide information and assistance to prospective entrepreneurs.

Enterprise Productivity. The enterprise training and technical assistance component will be organized under the auspices of the FYCCI, with the active collaboration of regional Chambers of Commerce and Industry. In addition, a certain amount of short-term training will be provided to officials in relevant government agencies, primarily the Investment Promotion Authority.

In summary, it is proposed that the YES Project be implemented primarily within the organizational rubric of the Investment Promotion Authority/MEST on the government side, and the FYCCI and Chambers on the private sector side. An integral part of the Project is to help these organizations to develop their institutional capacities to conduct policy, promotion and training efforts on a sustained basis after the YES Project is completed. The following section briefly describes the structures and capabilities of each principal organization involved in the YES Project.

Federation of Yemen Chambers of Commerce and Industry

The FYCCI was officially established at the end of 1982 as a consequence of government Law No.27. The organization began operations a year later. Up to that time, the regional Chambers represented the sole voice for business interests in Yemen, with the larger urban Chambers (Sana'a, Taiz and Hodeidah) playing a dominant role. The Federation was created to advance business interests representative of the nation as a whole.

The Federation currently has 12 members, one from each of the local Chambers. As specified in Law No. 27, the Federation is directed to receive 10 percent of the gross revenues of the three larger Chambers. In addition, the Federation is financed from receipt of one tenth of one percent of the value of import licenses. Because of the decline in recent years in official imports, the Federation is now facing serious budgetary difficulties. A major portion of revenues are allocated toward rent of the Federation's facilities.

The Federation has a staff of 20, of which only three are professionals, the General Director, the Public Relations Manager and the Deputy General Manager. The General Director and Public Relations Manager work on a part-time basis.

The Federation is charged with conducting technical research and working with the local Chambers to develop business positions on policies and other matters affecting private enterprise. For example, the Federation issued an economic report to the People's Assembly in January 1990. This report described current policy constraints and proposed policy reforms.

The Federation represents a logical organization to serve as the overall coordinating entity for the Enterprise Productivity component of the YES Project. The training and technical assistance activities will be implemented in conjunction with (and where possible physically located at) local Chambers, but the Federation is the only national business organization in Yemen. Locating the Enterprise Productivity activities in any single Chamber would give rise to conflicts of interest and complaints from other Chambers.

In view of its policy mandate, the Federation also should play strong supporting roles in the Policy Assistance and Trade and Investment Promotion modules of the YES Project. The Federation is often called upon to develop business positions on national policy issues, and also to host and assist prospective investors and traders.

Notwithstanding the national role of the Federation and the logical rationale for organizing training and technical assistance under the auspices of the Federation, it does not possess the institutional capacity for managing and operating the Enterprise Productivity component, at least in the early stages of the Project. As a result, training and technical assistance programs would have to be administered by YES Project staff. Over time, technical assistance on institution building would be provided by the Center for International Private Enterprise (CIPE) and other sources of expertise to assist the Federation to develop in-house administrative capabilities. One major part of this assistance would be devoted to fund raising strategies and programs (fees for services, memberships, financial and in-kind contributions, etc.) to expand the Federation's scope and services on a sustainable basis.

Sana'a Chamber of Commerce and Industry

The Sana'a Chamber is the largest and oldest Chamber of Commerce in the Republic. It was established in 1961. It has 10,010 members, of which 3,500 are retailers, 2,500 importers, 2,000 wholesalers, 700 commercial houses, 10 are exporters and 1,200 are other types of firms. The Chamber's revenues are derived from membership subscriptions and fees from certificates of origin, guarantees and agreements, arbitration and directories.

The Chamber's activities are overseen by a Board of Directors. The Chairman of the Board is assisted by two Deputy Chairmen (Commercial and Industrial), an Assistant Chairman, a Director and a Deputy Director. The Chamber's organizational structure consists of a series of divisions: The information bureau, a secretariat, membership records, accounts and administration, internal trade, foreign trade, and the arbitration committee. The Chamber has a staff of 25 employees.

Principal activities of the Chamber include: entering into dialogue with government authorities on economic matters; serving as a link between government authorities and its members; and representing its members on the Arbitration Committee in the Ministry of Labor and the Taxation Appeal Committee. The Chamber also responds to inquiries received from overseas, and provides trade sourcing information to Yemeni importers and marketing information to Yemeni exporters. Specific services provided by the Chamber include the issuance of certificates of origin, arbitration of disputes between Yemeni importers and foreign exporters, assistance to members seeking letters of credit, testifying to warranties and guarantees issued by members, and countersigning business agreements made between Yemeni agents and their principals outside the country.

It is clear that the Sana'a Chamber will be a useful collaborator on all aspects of the YES Project. It can serve as a source of requests on policy work (as well as a recipient of technical assistance on position papers), as an organization to contribute actively to investment and export promotion, and especially as a site to physically locate training activities carried out in Sana'a. Chamber officials conducted extensive discussions with the TEAM International unit which examined training needs and programs, and agreed to offer their office facilities for training programs.

The YES Project design team concurs that the Chamber can successfully play the roles described above. As with the Federation, however, the actual management of training courses would have to be carried out by Project staff.

Taiz Chamber of Commerce and Industry

The charter and management structure of the Taiz Chamber is very similar to that of the Sana'a Chamber. The Taiz Chamber has 2,800 members, the majority of whom are importers. Several members also come from manufacturing firms, agribusiness and small-scale industry.

The Taiz Chamber cooperated with USAID in the past on training and technical assistance provided to several food- processing firms under the Project SUSTAIN.

Similar to the Sana'a Chamber, the Taiz Chamber has been identified as a useful collaborator for all three components of the Project. It can serve as a source of requests for policy analysis, as an agent to cooperate in trade and investment promotion, and as a site to locate the rotating BMI training program. The Chamber has space available to conduct the short courses and seminars under the BMI program. In addition, the Chamber would like to continue the activities of the SUSTAIN for its agribusiness members under the YES project.

The YES Project design team confirms that the Taiz Chamber will be an appropriate collaborator for all the Project components described above.

The Hodeidah Chamber

There is considerable similarity between the charter and management structure of the Hodeidah Chamber and the other two previously discussed. The Hodeidah Chamber has 2800 members, 2,600 importers with the remaining 200 split between manufacturers and exporters. The membership of the Hodeidah Chamber has declined over the past three years due to a sharp drop in the port activities at Hodeidah.

Similar to the other two main Chambers, the Chamber in Hodeidah appears to be a suitable collaborator in all three of the main project components. In addition, the Chamber is interested in developing its own management consultancy services which would provide management advice to private firms in Hodeidah for fees. The Chamber would like to explore the possibility of obtaining technical assistance through the Project to assist in the development of such services.

Ministry of Economy, Supply and Trade

The role of the Ministry of Economy in commercial policy and administration was described briefly in Appendix F-2. Traditionally, the Ministry has been essentially a policy enforcement agency, with control over the issuance of investment and import licenses, and administration of price controls. In recent years, the Ministry has become increasingly active in the area of policy-making. The most recent example is the Ministry's initiative to consider, design and put forward new investment legislation.

In structure, the Ministry of Economy consists of a large number of relatively small divisions assigned with partial tasks associated with import license, investment approvals and price controls. In the area of investment, for example, the Projects Department receives and reviews feasibility studies associated with investment applications. The Permission Department makes recommendations for or against approvals, and the Industry Department carries out follow-up activities and publishes information on project progress.

Current legislation before the Assembly calls for the establishment of an Investment Promotion Authority (IPA) to administer streamlined application procedures, conduct investment promotion efforts, and play an important role in examining policies affecting private enterprise. Several competing institutional strategies have been put forward and are currently being considered. Under one plan the IPA would be constituted as a department within the Ministry of Economy. Another approach is for the IPA to be an independent agency with close operational and management ties to the Ministry. Yet another strategy is for the IPA to operate as an independent authority clearly separated from government ministries.

It is likely that the IPA will directly or indirectly maintain close relations with the Ministry of Economy. As such, the Ministry and or the IPA are proposed to serve as the governmental focal point for the YES Project. The IPA would carry out a major share of trade and investment promotion activities, and would act as a locus of policy analysis and dialogue efforts.

Alternative Approaches

Several alternative institutional arrangements were considered by the design team. In deciding which institution would be the main locus for the Policy Component, other institutions -- such as the Central Planning Organization -- were considered. However, analysis of this institution revealed that its functions are mainly concerned with public and donor project planning. The CPO's direct influence on macroeconomic issues -- such as investment regulations, trade policy, exchange rate and pricing policies -- is fairly limited. Therefore it was determined that the CPO would not be the appropriate lead implementing agent for this component; rather, it should play a supportive role on the Advisory Committee.

Similarly, the Ministry of Finance was considered as a possible principal contact point for the Policy Component, but was not selected on the basis that its focus is mainly on taxation and managing the central government's recurrent budget. It will play a policy role in the Project through the Advisory Committee.

For the Trade and Investment Promotion Component, the locus of activities is driven by the ultimate location of the Investment Promotion Authority -- which is the government's most promising institutional development in the investment area. It is likely that the IPA will be closely linked with the Ministry of Economy either directly indirectly. It is the opinion of the design team that it will be most appropriate for YES trade and investment assistance to be concentrated on this institution because that is where it is likely to have the greatest impact, and because the authority will need technical assistance to perform well in this new function.

For the Enterprise Productivity Component, the main locus is the Federation and the Chambers of Commerce. As an alternative, the University of Sana'a (Faculty of Commerce) was considered as the primary implementing institution for the Business Management Institute. This alternative was rejected, however, because the staff at the Faculty of Commerce are already heavily taxed by their teaching commitments, their teaching orientation would likely be too theoretical to suit the needs of most of the private sector, and the University location is not very accessible for most private sector firms.

Another alternative would have been to build a new management training center separate from existing institutions. This alternative was ruled out because of budget limitations and because of the costs and difficulties that might arise if existing networks were not utilized to identify potential trainees.

The Federation and Chambers were selected as locations for the BMI because: they will enable the Institute to have direct and efficient access to trainees through their own membership organizational networks; they have existing space available for training; and finally they are anxious to help supply this service and contribute to the costs so that they can provide more effective services to their members.

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