

**AIDE MEMOIRE**  
**INTEGRATED FRAMEWORK DIAGNOSTIC STUDY - YEMEN**  
**PRELIMINARY VISIT FEBRUARY 4 -13, 2002.**

In late 2001 the Government of Yemen and the Integrated Framework (IF) Inter Agency Working Group (IAWG) agreed that Yemen would be one of five countries to participate in the next round of the IF Work Program<sup>1</sup>. In February, 2002, Sandy Cuthbertson (Consultant) along with Nadir Mohammed and Mohammed Al-Sabbry of the WB Country Office in Sana'a participated in a preliminary mission to scope out and establish arrangements for a Diagnostic Study Program of work. The specific activities to be undertaken in this mission are listed in attachment 1. People and organizations contacted are listed in attachment 2. The preliminary mission TOR suggests that the Aide-Memoire cover the following key outcomes.

- Identification of country interests in trade-related analysis as a basis for country specific terms of reference.
- Proposed timing of work, initiation and exchange of information on timing of overall work, including national workshops.
- Identification of working arrangements with Government and private sector (Steering Committee, main mission counterparts for each section, consultative processes).
- Identification of local consultants who could participate in the work.
- Identification of agreed outcomes.

**DEVELOPING A BASIS FOR COUNTRY SPECIFIC TERMS OF REFERENCE**

The country specific terms of reference needs to reflect :

- the identified priority trade policy issues, and
- work already underway or pending.

**Priority Issues for Yemen**

The Government has identified high priority technical assistance areas in a background paper prepared in 2001. These areas are summarized in attachment 3.

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<sup>1</sup> The proposed countries are Yemen, Malawi, Senegal, Lesotho and Eritrea.

The generic terms of reference for a Diagnostic study include (i) a review and analysis of Yemen's economic and export performance; (ii) an assessment of the macroeconomic environment and investment climate; (iii) assessment of the international policy environment and the specific constraints that Yemen faces in international markets; (iv) sector studies; and (v) concluding recommendations for policy reforms and supportive technical assistance.

Areas typically falling under these broad headings include analysis of the trade policy regime, trade facilitation, and poverty analysis.

### **Economic and Export Performance**

Some of the special issues to be developed for Yemen include:

- The significance of oil revenues and labour remittances – the two big export earners with oil easily the biggest.
- The limited number of non-oil exports, besides labour, other exports are – fish, coffee, fruit and vegetables.
- Known oil reserves go out only 20 years.
- The relative improvement in performance in the second half of the 1990's following political stability, good oil prices (except for 1998 and recently) and economic reforms and trade liberalization embarked on in 1995.
- The Second Five-Year Plan (SFYP) projects growth of 6 percent, while the Strategic Vision 2025 suggests an annual average GDP growth of 9 percent.
- Population growth is 3.5 per cent with a population of 18.3 million in 2000.
- There is a relatively large informal sector.

### **The Macroeconomic and Investment Climate**

Some special features of the macro economic and investment climate include the following:

- External debt is projected to be 64 percent of GDP and 7.8 percent of debt service payments to exports of goods and services by 2005.
- Oil revenues are 33.7 percent of GDP, 90 percent of exports and around 65 percent of Government revenues.
- The exchange rate was completely floated in 1996.

- Reforms are underway to modernize the tax code and a new law on VAT is close to being passed. This law will replace consumption and production taxes.
- There were extensive subsidy reforms through the late 1990's.
- However some subsidies persist.
- Electricity is implicitly subsidized through financing the budget deficit for the Public Electricity Corporation. Diesel along with other oil products including LPG is also subsidized. The subsidy for oil products is reported in the budget book.
- The law on investment was reviewed in 1997 by FIAS. Amendments to the investment law reflecting FIAS recommendations were approved by the cabinet early last year and they are now before the Parliament.
  - Strengths include 100 percent foreign ownership and full repatriation of profits. Capital can also be repatriated upon liquidation.
  - Issues include exemptions on customs and tax holidays of 7 to 12 years.
  - There is a FTZ in Aden and the authority operating that zone also negotiates directly with investors.
- There is considerable uncertainty around the issues of what attracts foreign investment or conversely what discourages it. These include the following:
  - Security
  - Transport
  - Business environment
  - Land ownership security
  - Regulation and its administration
  - Administration at local government (governorate) level
  - Finance and financial services
  - Infrastructure
  - Structure of trade and tax regime
  - Justice system.

## **Trade Policy**

- The memorandum for Foreign Trade Regime (MFTR) is close to a final draft and an English version will be available in March.
- The tariff is a simple 4 band structure of 5 to 25 percent.

- There are no direct export taxes.
- Coffee is an export commodity and imports are banned with the objective of ensuring that only pure Yemen coffee is exported.
- Seasonal duties/bans apply on some fruit and vegetables but only a few years ago such imports were completely banned.
- There has been considerable work documenting the regime but not much analysis of effects.
- An Export Promotion Council was established in 1997 but it is still establishing an appropriate role and functions. They are planning to establish a database and seeking earmarked fees for the purpose of funding the Council's activities. Proposals have been made to establish marketing boards for certain commodities. Questions arising include:
  - How to fund?
  - How to manage?
  - What would the role and functions of such boards be?

### **Trade Facilitation**

- Customs is reported to be improving its performance with the introduction of computerized clearance through ASYCUDA. But computerization needs to extend beyond the airport and headquarters and there are issues of organization, structure and salaries for customs officers.
- There is a question as to how much smuggling is in small parcels through a porous border and long coast line and how much goes through outlying border points under the purview of customs.
- The Government and the World Bank have agreed in principle on establishing industrial zones. Such a zone or zones could provide security of land title, reliable infrastructure services and protection against harassment from officials and unnecessary red tape.
- Why has Aden FTZ not performed better when the port as a transshipment operation is doing well?
- Road transport is said to be costly and there are issues of regulation, competition and pricing.

## **Legal and Business Regulatory Environment**

- To the extent that land ownership security is a barrier to investment it has substantial trade policy implications.
- Land survey services and property management are tradeable services.
- Major rationale for industrial zones is weakness of land ownership security.
- There is a question as to whether apparently high incidences of land disputes reflects increasing land values, and unsatisfactory land titling system, weaknesses in the law or weaknesses in administration and the judiciary.
- Financial institutions are impeded from lending when there is not security of title.
- Investment in infrastructure and utilities also needs customers with secure title.

## **The International Policy Environment**

Few Yemen products face few trade barriers by way of quota access for its products. But technical trade requirements including standards, sanitary and phyto sanitary issues are significant especially for fisheries, fruit and vegetables.

There is a need to clarify the role of the Export Promotion Council in helping exporters meet specifications to reach export markets.

## **Poverty analysis**

- The I-PRSP has been completed and the full PRSP is due for completion in March.
- The 2000 Human Poverty Indicator has shown Yemen's rank to be 75 out of 85 countries and the Human Development Index puts Yemen at 133 out of 162 countries.
- Depending on the basis of measurement, unemployment is at least 11 percent and by some measurement is as high as 37 percent.
- The Monitoring Unit has focused on measuring poverty rather than establishing effects of different policies on poverty.
- Trade reform and subsidy removal are frequently raised by businessmen in public discussions.

## **Sector Studies**

The IF generic terms of reference suggests analysis of key labor intensive sectors for expansion of output, exports and employment. The World Bank, Social and Economic Development Group for the Middle East and North

Africa region is preparing an Economic Sector Work Policy note on sources, constraints and potential for economic growth in Yemen. Drawing on that note, the Second Five Year Plan (SFYP) and suggestions from people at interview, the following sectors could be considered for inclusion in further trade focused sector work.

### *Tourism*

- Currently small
- Security concerns
- Marked for growth in the SFYP
- Infrastructure needed
- Prospects for cultural and eco-tourism
- Also prospects for leisure and water related holidays and some construction reported to be happening in coastal areas.
- Issues of standards, certification, training transport and promotion.

### *Fisheries*

- Recent rapid growth in rock lobster exports
- Considerable family based fishing with implications for poverty alleviation.
- Also considerable commercial fishing based on Government to Government contracts.
- Problems of monitoring and controlling illegal fishing by people from other countries.
- Concerns about sustainability of current fishing effort.
- Regulations in EU are said to be demanding and substantial product is sold to Thailand for processing and subsequent export.
- Laboratory in Aden to certify quality.
- Big issues are management and monitoring of over-fishing.

### *Agriculture*

- Main export products are coffee, fruit and vegetables
- Water use, scarcity, and shortage are major issues since groundwater has been depleted, especially in urban areas. No rivers on Yemen and rainfall ranged from 50 mm to more than 1000 mm. The water table has been annually falling.
- It is good that women are reported to do most of the agricultural work in rural areas but neither women nor men receiving agricultural training on government extension centers.
- Other issues include post harvest management, processing, marketing, packaging, financing for promotion, research and extension.
- Fifty two percent of the people are engaged in agriculture and seventy five percent depend on agriculture.
- But agriculture only produces 14 percent of GDP

- Land tenure systems is potentially a major issue, as is land fragmentation due to inheritance system. In general, agricultural land is situated in highlands areas in which most of the land were naturally scattered among the mountains and farm sizes are small ranging between 20 m2 to 200 m2. Therefore, it is difficult to apply modern agricultural machines and techniques.
- Considerable agricultural resources are devoted to Qat in highland areas which is not an exportable commodity and which could be a heavy user of water. Qat is a rainfed plant but if farmers wants to harvest for more than two times a year, it needs to be irrigated.

### *Manufacturing*

- Only 300 large (more than 10 workers) manufacturing establishments.
- Main activities are food processing, textiles, clothing and leather, wood and wooden furniture and miscellaneous metal products.
- Manufacturers say they are vulnerable to smuggling and that tariff protection on their outputs is effectively zero while they pay duties and other taxes on their inputs.
- After slow growth in the mid 90's output has recovered to around 5.5 percent.
- But compared with most countries manufacturing in Yemen is tiny.
- The establishment of a Free Trade Zone in Aden has so far failed to attract manufacturing investment.
- Yemen's manufacturing export ratio (1.1 percent of total merchandise exports) is about the lowest in the world.
- Manufacturing has been accorded high priority in the SFYP.
- Need to put resources into the design of proposed industrial zones.

### *Non-Oil Mining*

- Deposits of gold , platinum, titanium, limestone and granite have been identified.
- Little activity so far.
- What are the obstacles to investment in these activities ?

### *Financial Services*

- Poorly developed financial services especially in rural areas.
- Tied up in question of limits on use of land as collateral.
- Some activities underway to establish micro credit facilities.

### *Transport*

- As noted issues of competition and regulation apply.
- Aden has a modern airport but regulatory restrictions apply.
- Road transport in a developed economy is at the same time a provider of warehousing and cold storage services.

- There are relatively few paved roads and roads are not well maintained raising issues of user charges and road funding.

### *Energy*

- Electricity supply is unreliable.
- Question of utilizing large gas reserves.
- Little private sector activity in electricity generation and distribution.
- Scope for greater domestic use of gas.

### *Handicrafts and garments*

- Scope for traditional production
- Poverty alleviation implications from promoting household production in rural areas.
- Scope for modern communication to bring market needs and specification closer to small producers.

### *Oil and Gas*

- Dominant sectors and a need to understand impacts on other sectors.
- Potentially large returns from small improvements if only because the sector is so large.
- Large gas resources currently not utilized because of the need for a suitable market.

### *Labour remittances*

- Very large in the early 1990's but set back by the Gulf War in 1992 when over 800,000 people returned.
- Now recovering as restrictions in employing countries have been eased.
- The labour force is estimated to be 4.2 million with at least 11 percent unemployed. Over 50 percent of population is under 15 years.
- No formal domestic regulation of these activities.

### **Ongoing trade related technical assistance activities.**

- EU project pending to support WTO accession. Initial activities include planning of a project for a model to assess, impacts of accession, helping edit the English version of the MFTR and helping with questions from member countries. While the proposed project is quite large, it is still in the design and appraisal stage.
- Assistance from UNDP/UNCTAD/DFID to support installation of ASYCUDA system at the airport and at customs headquarters.

- Possible visit in March by the International Trade Centre to advise on export promotion and marketing but there is no commitment and the mission will need to follow up.
- Former CTA to Aden FTZ currently preparing a TOR for further assistance with developing structure and functions for FTZ supported by EU.
- Economic Sector Work by World Bank.
- Surveys of business impediments by World Bank.
- Review of Investment law by FIAS and amendments are now before parliament.
- Poverty monitoring unit in CSO established with help from UNDP.
- Proposed fisheries work by EU.
- Economic reform a big issue in UNDP Program.
- FAO has supported marketing and production studies for selected crops.
- The Dutch government supported a review of the land titling system in 1998 and is currently designing a program of further support in that area.

### **PROPOSED TIMING**

The three 2001 pilot studies (in Cambodia, Mauritania and Madagascar) were completed within 4 months in order to meet reporting commitments for the fourth WTO Ministerial Conference in Doha in November 2001. In its assessment of progress based on these pilot studies the World Bank concluded that more time was needed to allow for comments on the terms of reference and draft report.

In the initial meeting with the Minister for Industry and Trade H.E. Mr. Othman, His Excellency suggested October as a suitable time to conduct the National Workshop. This timing reflected a wish to secure stakeholder participation and commitment before Parliamentary elections to be held in April 2003 and the Ramadan holiday period which is due to fall on November 2002.

An October Workshop suggests a time table as follows :

Preliminary Mission	Feb 4 -14
Circulate Draft TOR	March 1
Start Recruiting Team	March 3
Finalize TOR	April 1
Finalize Team	April 10

Commence Main Mission	May 10
Conclude Main Mission	June 4
Team members submit drafts	June 30
Team members finalize drafts	July 31
Draft report and overview circulated	August 15
Comments back to Team	September 15
Draft for Workshop circulated	September 30
Workshop	October 22

While this timetable is more manageable than the pilot studies it is still tight. One option would be to try and bring the main mission forward to April but this would squeeze development of the TOR and recruiting. Another option would be to consider December as the date for the Workshop. This would mean the field work could slip to June.

### **WORKING ARRANGEMENTS**

The Government has appointed a National Committee for preparation and negotiation with WTO chaired by the Minister of Industry and Trade and comprising Deputy Ministers from 17 Ministries, the chairman of Customs, a member of the Central Bank and the Chair of the Federation of Chambers of Commerce and Industry. See attachment 4 for the National Mechanisms for Negotiation and Accession to the WTO.

This Committee would be the logical reporting point though for reasons of management and to recognize the broader focus of the IF Diagnostic Study one option would be to have the National Coordination Committee appoint an IF Sub Committee which could also include members of the PRSP core team. The mission met separately with the Sana'a branch of the Federation of Chambers of Commerce and Industry and with the Federation of Chambers of Commerce and Industry it also met with the Agricultural Co-operatives Union which has members in all Governorates.

The PRSP is due to be completed in March. The mission met with the core team and it was suggested that the team be involved in the drafting of the Diagnostic Study TOR. This would make it possible for the PRSP to raise trade related issues and foreshadow further work to be addressed in the Diagnostic Study.

The Ministry of Industry and Trade is committed to the project with the day to day involvement of the focal point, Mr. Nagib Hamim, Chief of Communication and Coordination Office with the WTO. The Ministry will provide limiting accommodation to the visiting team by way of a meeting room but does not have capacity to provide transport, secretarial or translation services and these would need to be funded from the project.

## **IDENTIFICATION OF LOCAL CONSULTANTS**

Once the terms of reference has taken shape it is proposed that there be an advertisement in the local press seeking applications for short term local consultancy expertise in the agreed areas. The World Bank and the UNDP data base could be used to prepare a short list from these applications and interviews be conducted by the WTO coordinator assisted by the World Bank staff. One option would be to appoint a consultant to assist with the processing of applications. The mission met with several local consultants and a Sana'a based think tank, the Yemen Centre for Strategic Studies. The list of people and organizations met contains a list of consultants identified.

## **IDENTIFICATION OF AGREED OUTCOMES**

The agreed outcomes from the process are:

- A thoroughly documented analysis of priority trade issues.
- Thorough consultation and discussion processes within government, among stakeholders in the community and private sector and donors.
- An action plan to address policy issues.
- Technical assistance designed to support these policies.
- Government ownership and close involvement in managing and doing the assessment.
- A strengthened capacity within government agencies and local consulting groups, and an enhanced understanding of trade policy issues in the private sector and general community.

## ATTACHMENT 1

### Purpose of the Preliminary Mission

The broad objective of the preliminary mission is to lay the groundwork for and delineate the scope of the main mission. This will involve, among other things, taking stock of the past and ongoing work and enabling the mission chief to build contracts with key stakeholders including the Government focal points, as well as representatives of the core agencies on the ground and the Geneva-based agencies.

The specific activities to be undertaken and topics to be covered during the preliminary mission are to:

- Discuss the scope and content of the proposed study with the Government authorities.
- Agree on timing of main mission, national workshops and the domestic review process.
- Make contact with the key IF focal person in Government as well as the PRSP focal point. Make sure Ministries of Finance and Commerce are in touch. Establish the role of the PRSP Steering Committee and other relevant national development strategies and explore how links with PRSP and other processes will be achieved. If possible, a presentation should be made to the PRSP Steering Committee ( or relevant sub-committee) on the IF exercise.
- Establish the composition of counterpart working groups, initiate relationships with private sector, research partners and other stakeholders, create mechanisms for keeping partners in the field informed.
- Contact the UNDP and IMF (and any other core agency representatives on the ground (ITC, UNCTAD and WTO). Arrange for a briefing to the UN Heads of Agencies during the main mission. Prior to the main mission meet with the key representatives of all Geneva-based agencies (in an inter-agency setting), as well as Geneva based donors and officials from the diplomatic mission of the country concerned.
- Make contact with key donors in the country (by overall size or interest in trade) and those involved with the IF. The Government and the UNDP and World Bank resident representatives will guide the mission chief in this regard.
- Visit key research institutions and think tanks to explore possibilities for collaboration during the IF exercise.

- Assess existing work on trade and trade-related TA in the country and gather trade related research and related material on technical assistance.
- Identify focal points in the World Bank and UNDP offices for the IF.

### **The Mission Report**

The mission chief will draft an Aide Memoire that outlines key aspects of the discussion and reflects at a minimum the following key outcomes:

- Identification of country interests in trade related analysis as a basis for country specific terms of reference.
- Proposed timing of work initiation and exchange of information on timing of overall work, including national workshops.
- Identification of working arrangements with government and private sector (Steering Committee, main mission counterparts for each section, consultative process).
- Identification of local consultants who could participate in the work.
- Identification of agreed upon outcomes.

The Aide Memoire should be discussed with the Government before departure.

## ATTACHMENT 2

### List of People and Agencies Interviewed

H.E Mr Abdulrahman Mohamed Ali Othman  
Minister for Industry and Trade  
Chairman of the National Committee for preparation and negotiation with  
WTO.

Dr Yahya Al-Mustawakeel  
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**List of Possible Consultants met or identified**

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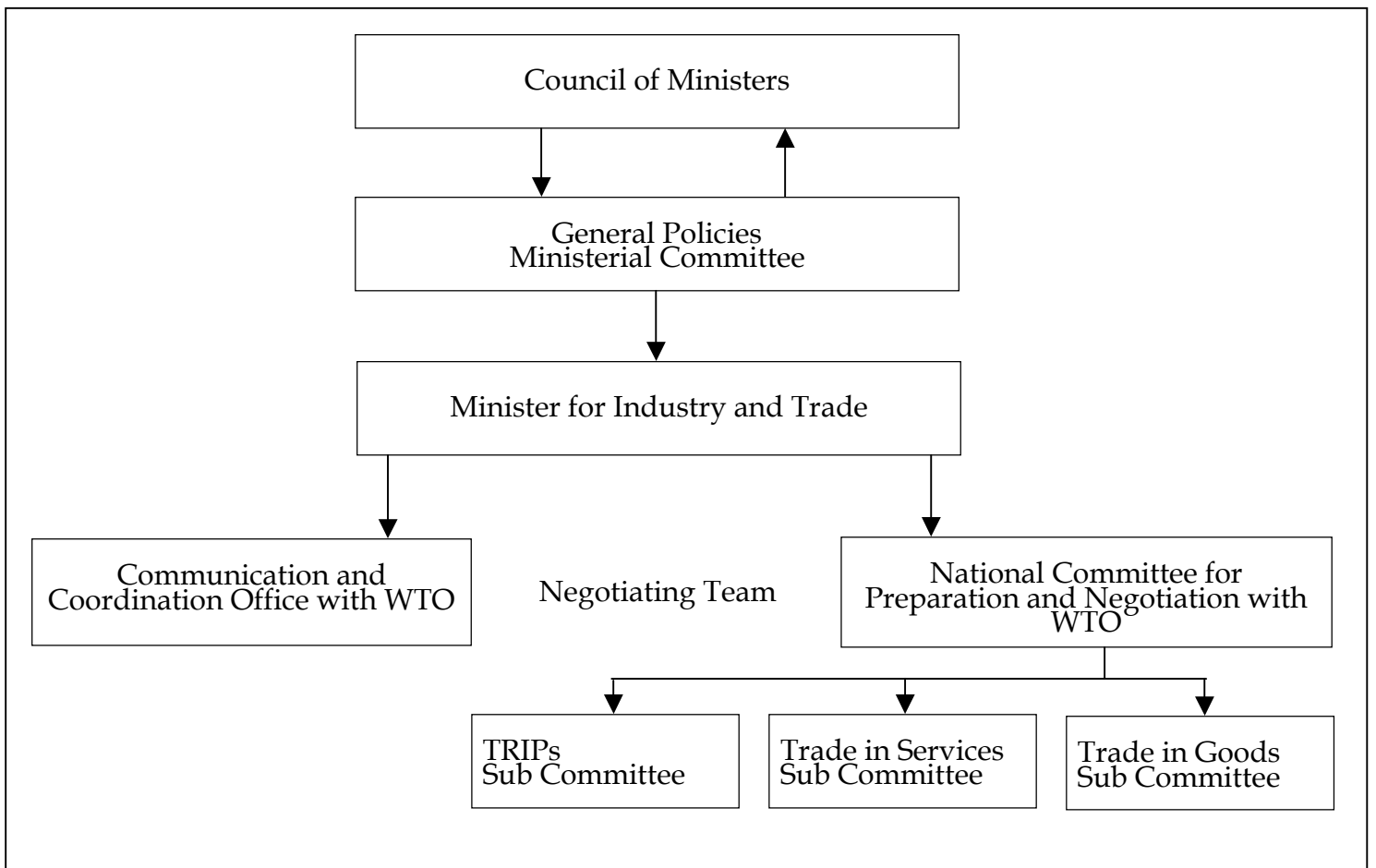
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## National Mechanisms for Negotiation and Accession to the WTO



## ATTACHMENT 3

### Technical Assistance areas of high priority to Yemen

- Preparation of the Memorandum on Foreign Trade Regime (MFTR), the first prerequisite to initiate the accession process.
- Training in the field of understanding and implementation of WTO Agreements, so that to build and implement a national policy for negotiations and accession to the WTO.
- Access to WTO information and resource persons.
- Studies on the impact of WTO accession, on production and service sectors, labor, national income, consumption, government resources, etc.
- Establishment of a medium-term strategy for Yemen trade policy, to implement a national Work Plan for the development of Yemen's international trade.
- Build a well developed database, able to serve both industrial and trade sectors' needs, including the establishment of Trade Points within the Ministry of Industry and Trade, and Yemeni Chambers of Commerce.
- Provide technical and financial support for the following entities:
  - **Communication and Coordination Office with WTO (CCO-WTO)** in terms of technical and administrative assistance to enhance its capacity to become the Central Unit for the accession process;
  - **Customs Authority**, to facilitate the implementation of the Customs Agreement, trade facilitation measures, and building customs' personnel capacities;
  - **General Authority for Standardization and Quality Control**, to enhance its ability to implement the TBT Agreement;
  - **Intellectual Property Protection Offices** at the Ministry of Industry and Trade and the Ministry of Culture, as well as enhancing the capacity of the Judicial Trade Courts and Customs personnel in respect of intellectual property right protection;
- Establishment of a qualified Anti-Dumping and Unfair Trade Practices Department within the Ministry of Industry and Trade.
- Preparation of AMS tables for agricultural products.
- Establishment of a qualified department within the Ministry of Agriculture and Irrigation in relation to the implementation of SPS Agreement, technical support to Agricultural Export and Import Supervision Centres, and the development of a medium-term agricultural export strategy.

- Execution of programs pertaining to preserving and protecting environmental diversity and promoting eco-tourism industry.
- Perform specific studies on trade related areas within the intellectual property rights protection.
- Amendment and/or creation of new laws necessary for WTO rules and commitments compliance.
- Enhancing negotiations' skills and techniques for the Yemeni Negotiating Team for accession to the WTO.
- Assist with general awareness of Multilateral Trading System, especially among private sector, legislators, Civil Society Organizations, and academia.