

Integrated Framework for Technical Assistance for Trade Development in Least Developed Countries

FINAL 20 April

Yemen - An Integration and Competitiveness Study

Terms of Reference

The Integrated Framework (IF)

The Integrated Framework (IF) was established by WTO trade ministers in 1997 to promote the integration of the least developed countries (LDCs) into the global economy. Participating agencies include the World Trade Organization (WTO), the International Monetary Fund (IMF), the International Trade Center (ITC), United Nations Development Program (UNDP), United Nations Committee for Trade and Development (UNCTAD), and the World Bank (WB). A specific objective of the IF is to increase the benefits that least developed countries derive from trade-related Technical Assistance (TA) made available to them by the international community.

An independent review of the IF, completed in June 2000, highlighted the lack of linkages to overall development strategies or programs and the absence of donor resources. Following the meeting of the Heads of Organizations, the IF was redefined to ensure better integration of trade with national development strategies and complemented by a trust fund for IF activities¹.

A pilot scheme was formulated under the revamped approach to provide trade related technical assistance to countries committed to integrating trade into their overall development strategies. The work program of the pilot scheme introduced the Diagnostic Study (DTIS) as the first step in the process. Diagnostic Studies were completed for three countries in 2001 — Cambodia, Madagascar and Mauritania.

In late 2001 the Government of Yemen and the Integrated Framework Inter Agency Working Group (IAWG) agreed that Yemen would be one of four countries to participate in the next round of the IF work program beginning with a DTIS in 2002.²

¹ As of September 2001, pledges to the Trust Fund had been made by the following partners: Canada, United Kingdom, Japan, Switzerland, Norway, Denmark, Sweden, Ireland, United States, the Netherlands, Finland, UNDP, the European Commission, France, and the World Bank.

² The proposed countries are Yemen, Malawi, Senegal and Lesotho.

The outcomes of a diagnostic study should be:

- a program of TA to strengthen the overall competitiveness of the economy and selected subsectors (reflecting priority needs, existing domestic capacity and past and current TA activities of all donors);
- a process including a 'trade specific' national workshop or seminar and other activities which involve stakeholders in designing the proposed TA program and which builds capacity within Government and the private sector..

Following the experience with the three pilot studies conducted in 2001 and subsequent analysis by the agencies involved, the following steps for conduct of a DTIS have been endorsed by the IAWG.

- Agreement between the Government and the IAWG for a DTIS to be undertaken.
- Appointment by the task manager — the World Bank — of a proposed team leader to conduct a preliminary mission.
- Conduct of a preliminary mission to:
 - discuss scope and content;
 - settle timing;
 - establish contact and working arrangements with the IF and PRSP focal points;
 - establish linkages with the PRSP so that the PRSP and IF activities are consistent and mutually reinforcing;
 - establish a basis for working with counterpart groups;
 - establish a working basis with other core agencies operating in the country;
 - establish working relationship with other donors;
 - assess existing TA work; and
 - identify focal points in the local World Bank and UNDP offices;
- Preparation of terms of reference in association with the local focal point the task manager and core agencies.
- Recruitment of local and international consultants team.
- Conduct of field mission of about three weeks.
- Preparation of draft report.
- Circulation of draft report to local government, stakeholders and core agencies.
- Revision and circulation of revised report for translation and a national workshop.
- Conduct of national workshop.

- Finalization of report.

These steps reflect an assessment of lessons learned during the conduct of the three Pilot Studies in 2001. This assessment amongst other things stressed the need:

- for ample time for in-country assessment and discussion of drafts and preparation of feedback;
- to consider carefully the institutional framework and human resource capacity available and needs ;
- for an explicit inventory and survey of existing trade related TA support; and
- to involve other Ministries besides the IF focal point — typically the Ministry of Trade or Commerce — perhaps by working through an interministerial working committee.

The terms of reference for the Yemen DTIS is designed to include processes to reflect these lessons.

Process for conduct of an DTIS

The preliminary mission discussed options for stakeholder consultation and capacity building within Government and the private sector. The Government has appointed a National Committee for preparation and negotiation with the WTO (NCPN-WTO). This 22 person committee is chaired by the Minister for Industry and Trade and comprises Deputy Ministers from 14 different Ministries, 2 Government Authorities, Prime Minister's Office, the Deputy Governor of the Yemen Central Bank (YCB) and the Federation of Chambers of Commerce and Industry (FCCI)..

This Committee would be a logical reporting point for the DTIS. It would help ensure that other Ministries were involved and would take advantage of the fact that the working group is fully established and operational.

In the private sector the team should work with the Federation of Chambers of Commerce and Industry and with local Chambers including the Sana'a Chamber and with the Agricultural Cooperative Union. Capacity building should be fostered by small seminars and workshops with these bodies as well as within government agencies.

The WTO Coordination Unit already produces a newsletter on trade related activities and the proposed IF study has been foreshadowed. The team should help provide information for this newsletter and should also build up an email distribution list to notify interested parties of activities and progress.

Overall structure of the report

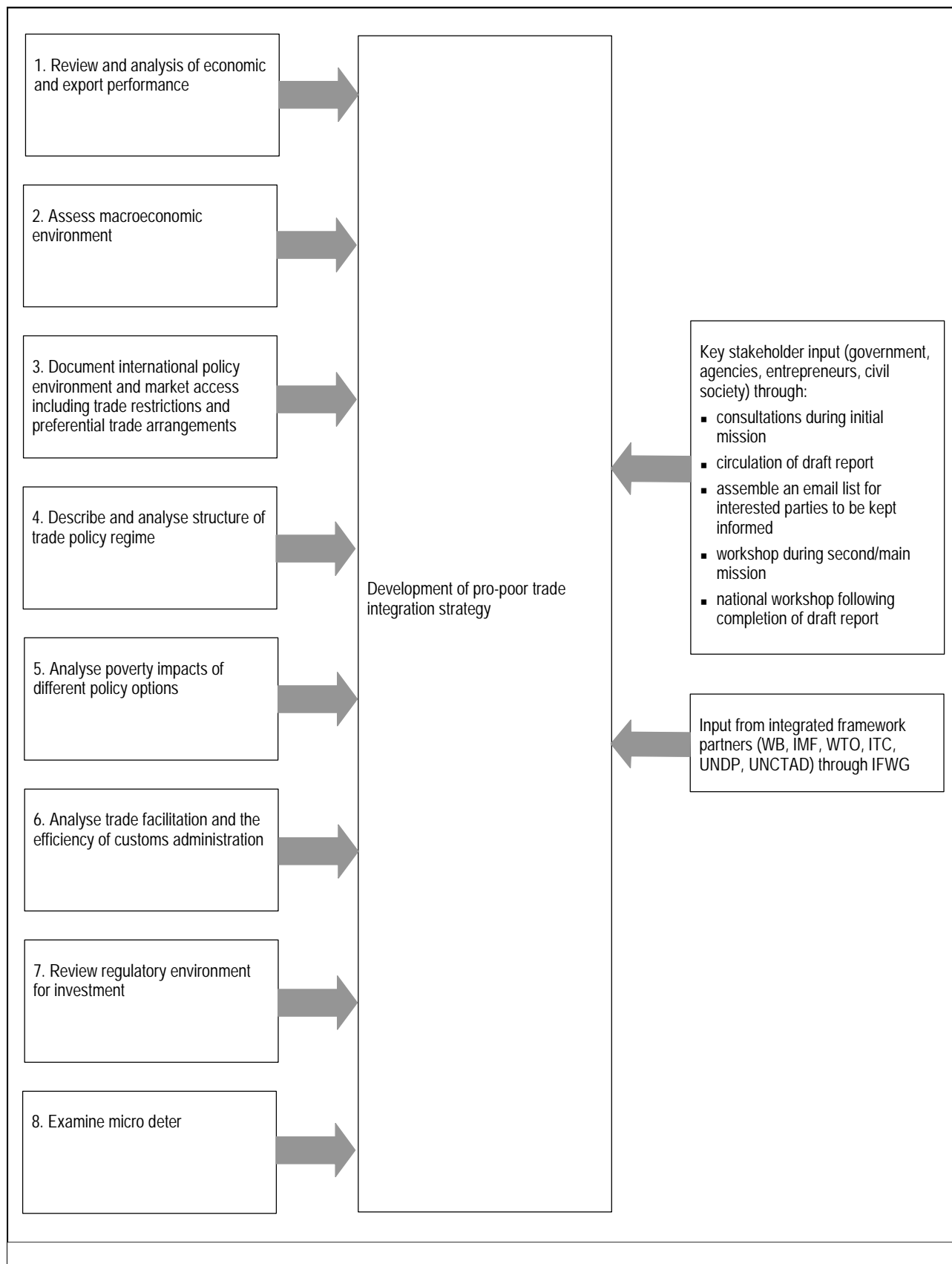
The study will be led by Sandy Cuthbertson (Centre for International Economics - CIE consultant). Dr Cuthbertson was team leader for the Cambodia pilot study and team leader for the preliminary

mission to Yemen. He will lead the main mission and be responsible for the delivery of the draft report and final report.

The diagnostic study, which will draw on material developed in the course of Yemen's ongoing accession process to the WTO and other recent studies, will be organized around eight main themes that are classified in three parts: Incentives and Institutions (part I), Microeconomic Determinants (part II) and Summary and Recommendations (part III) The components are summarised in chart 1.

The principal output for this study is the development of a pro-poor trade integration strategy. This strategy will build up on the results of a number of component analyses and interactions with key stakeholders such as government, agencies, entrepreneurs, civil society and the Integrated Framework partner agencies.

1 Components of the IF



PART 1: Incentives, institutions and competitiveness

Component 1 — Review economic and export performance

Yemen's economic and export performance through the 1990s must be appreciated in the context of several momentous events. First, there is the unification of the Yemen Arab Republic (YAR) and the People's Democratic Republic of Yemen (PDRY) to create the Republic of Yemen in 1990. Second, a severe drought affected agriculture in 1990 and 1991. Third, a precipitous drop in worker remittances and external aid followed the Gulf War in 1991. Fourth, a civil war in 1994 further affected economic activity and output. Fifth, in 1995 the government introduced a comprehensive economic, financial and administrative reform program (EFARP).

This component will describe real per capita growth, trends in poverty and the nature of Yemen's integration into international trade taking into account this historical perspective. The component will take on an international perspective by identifying and comparing core characteristics for Yemen to provide a basis for comparison with other countries. The consultants preparing this component will draw on Yemen's economic data and analysis in contemporary reports by the government — Strategic Vision 2025, the Second Five Year Plan (SFYP), and the Interim Poverty Reduction Strategy Paper (IPRSP) — and reports of international agencies including Economic Growth: Sources, Constraints and Potentials (World Bank 2002); Poverty Reductions in Yemen, (UNDP 2000); Yemen Common Country Assessment (UN 2001), as well as on original contemporary data sources including partner country trade data.

The component will provide the information necessary to support analysis of the following issues.

- Indicators of per capita income given economic and trade performances in the light of relative rapid rates of population growth.
- Considering the dominant role of oil in Yemen's economic and export structure and the concentration of exports to a relatively small number of mainly Asian currency markets, the component will report on trends in export and import to GDP ratios, FDI as a share of FGDP, types of FDI (by sector) and the nature of export composition - for example oil, coffee, fruit and vegetables, fish and remittances.
- Yemen has a large informal economy with many small firms and trade through unofficial channels is reported to be significant. The IF team will qualify official statistics as appropriate and where possible put an order of magnitude on the size of the informal economy.
- The nature and extent of fluctuations in exports derived from the dominance of oil in total exports and the concentration in small numbers of markets and the narrow base of non oil exports (coffee mainly to Saudi Arabia, fish to Thailand and both involving small value added) and labour remittances will be illustrated.
- Perceptions of the impact of the 1995 liberalisation of trade vary. Some manufacturers associate the liberalisation action with negative impacts on local industry and on the

quality of goods available to consumers. Other commentators consider the enhanced access to input and capital goods assisted local industry. What happened to import levels and composition? Were there surges in consumer goods? What was the nature of capital goods imports? How much were transport equipment and construction materials and how much was the industrial machinery?

- The biggest trading partners are Saudi Arabia and the United Arab Emirates. This component should provide the base data to pave the way for subsequent analysis of the trade segments for Yemen and Saudi Arabia in section 3.

Prime responsibility for this component will rest with Jim Robertson (consultant).

Component 2 — Assess the macro-environment

Contemporary micro and macro-economic outcomes have been shaped by the economic reforms and stabilization policies introduced in 1995. Amongst other things, the program focused on stabilization, price and trade liberalisation fiscal analysis and reform of the exchange rate regime. This assessment of the macro environment will:

- describe the contemporary macroeconomic context and main issues as identified in current policy statements especially policy documents including Strategic Vision 2025, the Second Five Year Plan and particularly the PRSP;
- identify ongoing and proposed Technical Assistance in macroeconomic policy;
- assess the composition of trade and investment flows for oil, remittances, other exports, direct foreign investment, donor funding etc;
- examine exchange rate management following the removal of restrictions on current account transactions and the floating of the exchange rate in 1996 and assess the impact on competitiveness in terms of movements in the real effective exchange rate;
- assess the interactions between Government revenue and expenditure flows and changes in trade and investment policy;
- evaluate the central role of oil export revenues in the economy and explore ways of managing that role; and
- report on contemporary macroeconomic policies and outcomes including:
 - public administration reform;
 - financial sector reform;
 - taxation reform including changes in the general sales tax (GST) law made by the parliament in November 2001 and reformed in March 2002;
 - privatization;
 - price and monetary reform; and
 - poverty alleviation.

The IMF will provide input on tax reforms, budgetary, monetary and exchange rate policies and subsidies reform. While the team, with Chris Jones bearing primary responsibility, will coordinate with the Government of Yemen and the World Bank on privatization, civil service reform and judicial reform.

Component 3 — Assess international environment and market access

This component will amongst other things document any specific trade restrictions existing in industrial country markets for existing and potential export markets.

In the case of the fisheries for example, why is it that value adding activities are apparently small and a substantial amount of product finds its way to international markets only after being processed in Thailand.

While Yemen manufactured exports do not appear to run into quota access issues, there could be preferential access that is not being utilized. The team would canvass such opportunities and identify obstacles such as product specification, lack of market information, supply constraints on limited capacity to demonstrate compliance with international product standards with respect to health, quality and labelling.

Preferential arrangements are also emerging. A trade agreement with Saudi Arabia is reviewed annually. Yemen has recently negotiated health and education protocols with the Gulf Cooperation Council (GCC) and the implications of deepening trade links with the GCC and other regional arrangements such as the Pan-Arab Free-Trade Agreement will be assessed.

This component will be completed by Jim Robertson (consultant) working in cooperation with Malcolm Bosworth (consultant) who will also be working on Component 4.

Component 4 — Describe and analyze structure of trade regime

As Yemen works towards accession to the WTO, pressure from WTO members is likely to focus on the need for Yemen to put in place a trade related legal, regulatory, institutional and enforcement regime in conformity with the WTO. Yemen's accession to the WTO will be largely dictated by the pace at which it is able to develop such a regime. Yemen needs an assessment and mapping of its requirements in this area so that targeted technical assistance can be deployed rapidly to build an enabling environment for trade and commerce.

The material prepared in this component will be used in Part 3 to meet the governments' expectations from the DTIS, namely to:

- establish a short to medium term foreign trade strategy;
- blend trade integration into the PRSP process; and

- analyze and assess government policies and plans and, with Yemeni counterparts, build an ongoing capacity for doing such assessments in a systematic fashion.

While this is a trade policy focused study it will need to take on a broader perspective recognizing the importance of institutional arrangements across different ministries and stakeholders for developing and implementing trade policy in the context of economy wide industry and economic policy. These policies have been extensively reviewed in recent years, see for example, Economic Growth: Sources, Constraints and Potentials (World Bank 2002), and by government initiatives including most recently the PRSP. The component will carefully review and build on these reviews and analysis.

Yemen's memorandum for the foreign trade regime in connection with its succession to the WTO (MFTR) is being prepared by the National Committee for Preparation and Negotiation with the WTO (NCPN-WTO). The memorandum has been extensively reviewed and revised over the past 18 months. All work so far has been in Arabic but an English version is expected to be available before DTIS fieldwork commences. The team members with direct WTO experience (mainly Malcolm Bosworth) will work with the committee and its secretariat to anticipate questions likely to be raised by WTO members to assist Yemen to establish a trade related legal, regulatory, institutional and enforcement regime in conformity with WTO standards. The team will build on technical assistance already provided in this area through the EU including a description of the trade regime prepared in 2001.

While this is a trade policy focused study it will need to take a broader perspective recognizing the importance of the institutions for developing and implementing trade policy. It will also need to recognise that trade policy issues are usually domestic economic policy issues.

Drawing on the MFTR and other descriptions and analysis of the trade regime specific tasks for the trade policy regime component are as follows.

- Describe and appreciate the Government's policy plans and objectives as stated in contemporary policy documents including Strategic Vision 2025, the Second Five Year Plan and particularly the PRSP.
- Drawing on the material in Component 1 describing the pattern of imports and exports and their growth and direction across markets and products, analyse links between these trade patterns and policies and reforms of recent years.
- Drawing on the MFTR and other technical assistance summarize the current tariff regime and related taxes, identifying:
 - the average tariff (using simple, imported weighted and production weighted averages to the extent that the available data allows);
 - the dispersion of tariff rates;
 - preferential tariff rates and their effect on the structure of protection;
 - concessions and exemptions;

- any para-tariff measures or other taxes that are differentially applied to imported goods);
- the sectoral dispersion of tariff rates; and
- to the extent possible, changes in these measures over the past ten years.
- Summarise policies affecting exported goods and services such as:
 - export taxes and other imposts which might be implicit or explicit;
 - export subsidies — either explicit or implicit; and
 - free trade or export processing zones.
- Identify any restrictions that Yemen places on international trade through controls on:
 - which enterprises may engage in trade (export and import trade) — both foreign and domestic;
 - the types of commodities that may be imported and exported; and
 - foreign exchange usage.
- Document the mechanisms that Yemen uses to administer its trade policy, identifying:
 - the legislative instruments that specify the trade regime;
 - the government ministries and other agencies responsible for administering the trade regime;
 - the government ministries and other agencies responsible for the development of trade policy; and
 - the institutional mechanisms for developing trade policy reforms.
- Describe the structure and interactions between taxes such as turnover, consumption, sales and trade taxes on traded commodities.
- Measure the size of these interactions in terms of changes in relative prices and their impact on incentives for consumption, production and trade.
- Describe and analyse the tax structure of corporate taxation in terms of definition of income, exemptions, rates of taxation, treatment of depreciation, consistency across regions, sectors and size of firms.
- Assess the impacts of this structure on incentives to invest.
- Describe the structure of personal taxation in terms of rates, exemptions and tax free thresholds.
- Describe current policies with respect to safeguard measures such as antidumping and countervailing duties.
- Determine the current objectives of trade policy and of the various trade policy instruments used by Yemen.
- Document Yemen's commitments under bilateral and multilateral trade agreements to which it is currently party to.

- Analyse the resource allocation implications of the current trade regime using available data.
- Analyse how well the current trade regime conforms with WTO membership requirements.
- Identify appropriate reforms to the trade regime that will improve the efficiency of resource allocation in the Yemen economy and that will be required to comply with WTO membership requirements.
- Describe and assess existing and proposed Technical Assistance for trade policy.
- Develop a Technical Assistance action plan consistent with trade policy priorities.

Component 4 will be prepared jointly by Malcolm Bosworth and Chris Jones working with local consultants. Mr Bosworth will take the lead on WTO related matters while Dr Jones will take the lead on measuring the impacts of the existing trade, tax and subsidy regime on incentives to produce and trade.

Component 5 — Poverty impact analysis

According to Yemen's Interim Poverty Reduction Paper (IPRS), analysis of the 1998 Household Budget Survey indicates that poverty in Yemen almost doubled in 1992 with the number of households below the 'food poverty line' rising from 9 per cent to 17 per cent. With food, clothes, housing, education, health and transport factored into an 'upper poverty line' the percentage of households living in poverty rose from 19 per cent to 33 per cent.

The IPRS was completed in December 2001 and the full PRSP is due for completion in March 2002. The 2001 Human Poverty Indicator ranks Yemen 133 out of 162 countries. Depending on the basis of measurement, unemployment is at least 11 per cent and by some measures is as high as 37 per cent.

These social indicators reflecting very low human development are marked by a consistent pattern of wide gender disparities. For example, 44 per cent of males and 72 per cent of females are illiterate. Other factors to be considered in poverty analysis include the rapid population growth (of around 3.5 per cent per annum) increasing water scarcity, the accommodation of refugees and returned remittance workers and the shares of low income family consumption devoted to purchase of Qat.

However, a clear assessment of the linkages among trade, growth and poverty is lacking in Yemen. The analysis will seek to identify the geographical, income, and poverty impact of imports and exports. The review analysis serve as a basis for identifying indicators linking trade to poverty reduction in the context of Yemen. Identification of trade-poverty reduction indicators will be required if Yemen is to formulate a trade sector strategy that can identify clear achievable poverty reduction outcomes.

This component will describe the evolution of poverty during the last 10 years in Yemen and infer the impact that changes in trade policy and other macro-economic variables have had or would have had on the poor. It will also provide an analysis of the effects that different future changes in trade policy (or market access) may have on poverty. A simple model will be developed to relate consumption and production of the poor relative to the rest of the economy with changes in poverty and vulnerability of households. The main difficulty of this exercise will be to 'locate' the poor in terms of consumption and production patterns relative to the rest of the economy.

Yemen has in place a Poverty Monitoring and Analysis System under the auspices of the Central Statistical Organization (CSO) as a component of the UNDP Poverty Alleviation and Employment Generation program. The system, which has been developed with the assistance of UNDP, includes a technical unit in the Ministry of Planning and the IF should cooperate and coordinate its activities with this unit.

In most developing economies (except Singapore and Hong Kong) agricultural productivity improvements have been the springboard for wider economic growth. In Yemen agricultural growth is slow relative to the rest of the economy yet over 52 per cent of the labor force is employed in agriculture. This 52 per cent produces only 14 per cent of GDP. Thus the potential for policies to impact on agriculture must be a key consideration in assessing potential for poverty reduction.

This component will be completed by Isidro Soloanga (consultant).

Component 6 — Trade facilitation/efficiency of customs administration/free trade zones/export development

This component will need to assess the efficiency of the institutions and procedures affecting the cross-border flow of goods and services, and identify the scope for improvements. Issues covered will include: import and export clearance procedures (including documentary requirements and processing); customs valuation and duty assessment processes; risk management procedures; and pre-shipment inspection; procedures to provide exporters duty relief on imported inputs, including FTZs and bonded warehouse arrangements; export inspection; quality control and standards enforcement procedures; and the application of sanitary and phytosanitary measures. It will also undertake an assessment of institutional capacity issues within the customs service, with a view to identifying broad capacity building needs.

The component will need to appreciate and build on existing streams of technical assistance activity.

- A Yemen investment climate project under a Japanese PHRD investment grant being conducted by the World Bank is working with the Free Zone Authority and the Supreme Export Promotion Council on trade facilitation matters.
- An UNCTAD project to establish ASYCUDA supported by (DFID) has been extended to the end of 2002 so that computerization can be established at other points beyond the

airport and head quarters. Issues of organisation, structure and salaries for customs officers are recognised as a looming set of priority concerns.

- Yemen Customs is reported to be improving its performance with the introduction of computerized clearance through ASYCUDA.
- Smuggling is a frequently raised issue in Yemen. 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.
- An EU technical assistance project is being designed to expand the administrative capacity of the Aden Free Zone Authority established at Aden besides the port. Transshipment activities in the port are expanding but investment in the FTZ is apparently disappointing. The study should address why Aden FTZ has not performed better when the port as a transshipment operation is apparently doing well?
- Trade covers other issues besides customs procedures. Also important are such matters as access to information on markets and regulations, trade related infrastructure, transport regulation, trade finance and trade promotion. The diagnostic study will need to set priorities, identifying key obstacles and spell out a coherent program of technical assistance to address trade facilitation issues of greatest significance and which offer the best chance of making practical improvements. The Supreme Export Promotion Council established in 1998 is still in the process of identifying and clarifying its role and building up sources of funding. The team will build on earlier work with the council carried out under the PHRD grant and will ensure that practical techniques available through the international trade centre such as international trade maps will be tested and where practical established as tools of trade for the Council.
- Funding options for the council will be examined including weighing up strengths and weaknesses of such options as direct payments for commissioned services, budget transfers and earmarked levies.

—This component will be carried out by Geoff Wright (consultant) and Abdeslam Azuz (ITC). Mr Wright will coordinate the work on customs and zones while Mr Azuz will assess the needs of exporters through the export promotion council and other exporter associations such as the Chambers of Commerce and Industry and the Cooperative Farmers Union.

Component 7 — Report on the regulatory environment for investment

There is widespread acknowledgement of the need to create a regulatory environment hospitable to private sector investment if growth sufficient to overcome poverty is to be achieved. Similarly the existing regulatory impediments are well documented - policy uncertainty, insecure land rights, an unreliable judiciary and a weak public administration. Outcomes in the form of a few

conglomerations of firms large enough to cope with this difficult regulatory environment and many other small firms which survive mainly by being small enough to be unnoticed are also well documented by both government and international agency reports.

It is government policy to tackle these regulatory challenges by removing obstacles to the functioning of goods and factor markets, reforming the investment law, intensifying consultation with the private sector and liberalizing entry and prices in the trucking and shipping sectors.

For the DTIS this component will:

- describe and assess existing and emerging policy statements with respect to regulation review and reform as stated in policy documents including Strategic Vision 2025, the Second Five Year Plan and particularly the PRSP;
- describe and analyse existing and proposed Technical Assistance in dismantling regulatory impediments particularly as they affect trade and investment and with particular reference to regulation on market entry and access to factors of production;
- review recent and/or proposed changes in laws on investment from the point of view of:
 - incentives for investment;
 - treatment of foreign versus local investors;
 - revenue implications; and
 - administrative demands;
- interact with the trade facilitation component team to draw implications for incentives and administrative arrangements affecting investment in Free Trade Zones and elsewhere in the country; and
- prepare an action program for Technical Assistance which reflects priorities and ongoing Technical Assistance.

The law on investment was reviewed in 1997 by FIAS amendments to the law reflecting FIAS recommendations were approved by the cabinet last year and are now before the Parliament. According to FIAS the law as reviewed in 1997 had a number of desirable features including provision for 100 per cent foreign ownership and allowance of full repatriation of profits. Potential weaknesses in the law include provision for exemptions on customs duties and tax holidays of 7 up to 12 years. Amongst other things the study should estimate the extent to which tax holidays actually attract investment. There is considerable uncertainty about the relative influences of such factors as:

- the business environment
- land ownership security
- regulation and its administration
- the justice system

- infrastructure, and
- transport.

This component will be the responsibility of Bob Warner.

PART II: Assess microeconomic determinants of competitiveness

Component 8 — Sector studies

A practical appraisal of Yemen's potential competitiveness will need to be based on firm level cost structures and actual experiences with the policy, regulatory and infrastructure environment. This component will use a set of sector case studies to gather detailed information about the factors constraining trade and output development at a sectoral level, with a view to developing a practical perspective on issues that would need to be addressed in an overall trade strategy. Amongst other things, the sector case studies should provide for benchmarking both in terms of current competitiveness/performance as well as in terms of the sectoral development paths which have demonstrated some success in other countries.

Each sector study will require the consultants to:

- survey domestic supply capacity;
- review domestic policy and regulation with respect to trade facilitation, infrastructure, institutions and bottlenecks created;
- survey international demand; and
- identify and rank sector specific measures according to practical cost effectiveness.

Each sector study should be conducted in close consultation with the business sector working through relevant sector groups.

Common threads in this analysis will include:

Transaction costs: trade facilitation, duty free access to intermediate inputs, availability and costs of export credit, communication and energy.

Transportation: adequacy of transport infrastructure and regulation, including entry limits on transport providers.

Regulatory environment: covering firm level perspectives and experience with restriction on entry and exit, inspections and other regulations that might both help and hinder production performance.

International and regional rules and disciplines: covering analysis of constraints and opportunities as affected by such things as product and other standards, intellectual property requirements, and rules of origin.

Services performance: particularly the policies and performance of such services as telecommunications, airlines, maritime, banking, insurance and financial services. Local consultants will be used to complete an inventory of services policy and performances following an established template.

To be effective in the formulations of a plan of action these firm analyses will need to derive estimates of the relative impact on costs of production of unnecessary regulation, inefficient administration and below standard infrastructure.

A section on supporting services will provide a general background for the sector studies. This section will draw on a survey template developed by the World Bank trade group which measures the cost and efficiency of services for supporting trade (transport, communications, finance etc). This survey material will provide the information for the Government to be able to assess where services delivery stands.

Micro determinants - sector studies

Over the past few months (August 2001 to March 2002) the World Bank has completed a major stream of work covering studies of fisheries, agriculture, oil, gas, mining, manufacturing, tourism, transport and communications. This work is currently being extended in greater detail to cover non oil mining, agriculture and fisheries under the provisions of the Yemen Investment Climate Project.

The DTIS will build on this and other sector work spelled out in the SFYP and Vision 2025. The DTIS will focus on the following four sectors:

- Fisheries;
- Labour remittances covering Labour Market Integration and exports;
- Transport especially maritime transport services;
- Tourism, and
- Basic Telecommunicatios

Fisheries sector studies

Bearing in mind the following features of Yemen's fishing industry:

- its significance of non oil exports;
- the relatively low value added nature of Yemen fishing exports even though much of the catch is high value rock lobster and shrimp;
- the large number of foreign fleets under bilateral agreements working alongside many small scale local fisherman;

- 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; and
- big issues are management and monitoring of over-fishing.

The fisheries sector study will:

- describe the structure and nature of Yemen's fisheries sector;
- describe and analyse policy and regulatory arrangements including their administration in the fisheries sector;
- assess contemporary knowledge of fisheries stocks and implication for licensing regimes;
- report and analyse export and import composition of fisheries products;
- identify the nature of the common property resource with respect to Yemen fisheries and canvass regulatory options to accommodate these features;
- describe existing fisheries export activities and identify main impediments to export expansion:
 - fisheries stocks;
 - transport and storage;
 - quality control and inspection procedures;
 - processing capacity; and
 - marketing packages and labeling;
- identify the role of fisheries in meeting general Government objectives as spelled out in policy statements especially the PRSP; and
- report on existing and proposed Technical Assistance and design a Technical Assistance action plan which reflects priorities and this ongoing Technical Assistance.

The fisheries sector study will be undertaken by Gert Van Santen

Labour remittances sector study

Bearing in mind the following features of Yemen's labour remittances industry:

- 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;
- moves to labour market integration;
- 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; and
- no formal domestic regulation of these activities.

The labour remittances sector study will:

- describe and appreciate Government planned policies for labour exports;
- describe and analyse regulatory arrangements affecting labour exports;
- describe and assess moves towards labour market integration in the region;
- identify the main impediments to labour exports; and
- in light of Government plans, existing Technical Assistance and identified priorities spell out an action plan of Technical Assistance.

The labour remittances sector study will be done by Bob Warner.

Transport sector study

Bearing in mind the following features of Yemen's transport industry:

- as noted issues of competition and regulation apply;
- Aden has a modern airport but regulatory restrictions apply;
- the scope for exploiting the natural advantage of Yemen's location with respect to maritime transport;
- road transport in a developed economy is at the same time a provider of warehousing and cold storage services; and
- there are relatively few paved roads and roads are not well maintained raising issues of user charges and road funding.

The transport sector study will:

- describe main domestic and international transport modes in Yemen focussing particularly on Maritime transport services;
- describe and appreciate Government policy for transport as spelled out in contemporary policy documents including the Strategic Vision 2025, the Second Five Year Plan and the PRSP;
- report on ongoing Technical Assistance with respect to transport policy;

- describe and analyse transport regulation with respect to the main transport modes, particularly with respect to state monopolies and controls on tariffs and fares, and infrastructure;
- describe the regulatory framework in the context of contemporary steps to liberalize transport; and
- prepare a Technical Assistance action plan which reflects priorities and ongoing Technical Assistance.

The transport sector study will be conducted by Geoff Wright (consultant).

Tourism

Bearing in mind the following features of Yemen's tourism sector:

- its small size reflecting security concerns;
- identified as a growth sector in the SFYP;
- the need for infrastructure;
- prospects for cultural and eco-tourism;
- along with prospects for leisure and water-related holidays and;
- policy issues of standards, certification, training, transport and promotion.

The tourism sector study will:

- describe the existing structure of Yemen's tourism industry;
- report on existing and ongoing technical assistance activities;
- identify infrastructure and policy priorities;
- propose priorities for future technical assistance.

The tourism sector study will be the responsibility of Bob Warner.

Telecommunications

Bearing in mind:

- the relatively low density of telecommunications in Yemen;
- the significance of telecommunications access and costs in modern international trade;

- the scope for competition and private sector investment arising from technical advances in telecommunications and;
- the need for modern regulatory arrangements to manage that direct private investment.

The telecommunications sector study will:

- describe the current state of telecommunications in Yemen;
- report on ongoing technical assistance in the area of telecommunications;
- identify priorities for regulation, policy and investment in telecommunications;
- propose appropriate technical assistance reflecting these priorities.

The telecommunications sector study will be the responsibility of Sandy Cuthbertson.

PART III: Executive summary and policy recommendations

Component 9 — Development of pro-poor trade integration strategy

Based on the above, the report will develop a pro-poor trade integration strategy made up of a proposed set of policy reform priorities and several action plans at the sectoral level that include project proposals to capitalize on major opportunities identified. The policy proposals will target the key bottlenecks and constraints that emerge from the analysis as priority areas for poverty reduction, and may be incorporated into a Poverty Reduction Strategy Credit as appropriate. Other policy and sector-specific proposals will be identified for follow up action by donors and development partners. The study will also include an assessment of technical assistance and capacity-building priorities to support the trade strategy, as well as recommended actions that should be taken by high-income and regional partner countries to improve access to their markets. The recommendations will take into account the likely impact of proposed actions on the level and structure of poverty to ensure that the strategy has the desired positive impact on the poor. To the extent possible, an analysis of gainers and losers from the policy changes will be undertaken and specific policies to minimize any possible detrimental impact on the poor must be identified.

The team leader will ensure amongst other things that:

- the DTIS output blends with the PRSP;
- local capacity to continue with and support the activities began under the DTIS is established;
- the main field mission begins with a series of informal workshops which will be followed by other workshops and informal meetings as issues arise and networks develop. There will also be an exit workshop towards the end of the mission. These

meetings and workshops will be structured so as to secure Yemen input and to identify issues of primary concern to the Government and stakeholders;

- the project delivers tangible and identifiable outputs;
- other key ministries especially finance and Planning are fully involved;
- a medium term foreign trade strategy is developed;
- government policies and plans are thoroughly evaluated; and
- donors are fully involved so that there is appreciation of and support for the technical assistance priorities identified in the DTIS.

—With input and participation from the team, this section will be drafted by Sandy Cuthbertson (Team Leader).

Timetable

The timeframe for undertaking the diagnostic study is relatively tight with a report available for translation and circulation in time for a National Workshop to be held possibly in October and no later than December. To meet this deadline, the main mission requires to be in mid-May with timely finalization of individual component reports. Table 2 outlines the proposed timing for the diagnostic study.

Meeting this tight deadline will require that individual mission team members have their reports finalized by mid-July at the latest. A draft report of findings will be required before the completion of the mission.

2 Proposed timing for diagnostic study

Task	Timing	Prior actions required
Develop terms of reference	Preliminary visit by Team Leader – 4-14 Feb Circulate draft – 1 March	
Appoint team	Start recruiting – 3 March Finalise recruitment – 20 April	Finalisation of terms of reference
Main mission	Commence – 18 May Conclude – 12 June	Successful appointment of team members – will depend on lead time, early scoping of potential members required.
Team member reports	Submit drafts 10 July Finalise reports – 10 August	
Draft report	Circulated – 20 August Comments from government and agencies – 20 September	Completion of individual team members reports.
Draft report for workshop	30 September	Quick turnaround of comments of government and IFWG members.
Workshop	22 October 2001	
Final report	20 December 2002	