REPORT AND RECOMMENDATION
OF THE
PRESIDENT OF THE
INTERNATIONAL DEVELOPMENT ASSOCIATION
TO THE
EXECUTIVE DIRECTORS
ON A
PROPOSED CREDIT
TO THE
YEMEN ARAB REPUBLIC
FOR A
TEXTILE REHABILITATION PROJECT

June 2, 1978

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CURRENCY EQUIVALENTS

$1 = YRls 4.50

YRls 1 = $0.22
YRls 1,000 = $222.00
YRls 1,000,000 = $222,222.00

FISCAL YEAR

July 1 to June 30

ABBREVIATIONS

Corporation - Yemen Textile Corporation
CPO - Central Planning Organization
Lm - Linear meter of fabric

1/ No par value for the Yemeni rial has yet been declared to the IMF. All exchange transactions are effected at the Central Bank rate which has been pegged to the US dollar since February 1973.
YEMEN ARAB REPUBLIC

TEXTILE REHABILITATION PROJECT

CREDIT AND PROJECT SUMMARY

Borrower: Yemen Arab Republic
Beneficiary: Yemen Textile Corporation
Amount: US$7.0 million
Terms: Standard

Onlending Terms: The proceeds of the IDA credit would be onlent by the Government to the Yemen Textile Corporation (Corporation) at an interest rate of 7.5 percent per annum plus a service charge of 2.5 percent per annum for a period of 12 years including 4 years grace. The foreign exchange risk would be borne by the Corporation.

Project Description: The project comprises:

(a) Phase I (1978-79)

(i) reconditioning of the existing machinery and equipment; (ii) immediate replacement of a small number of machines; (iii) completing the erection and start-up of the equipment purchased earlier by the Corporation under its own modernization program; (iv) introduction of an incentive scheme (currently not in existence) based on reasonable work loads to improve productivity, and (v) management and operating assistance and training through a team of foreign experts.

(b) Phase II (1980-81)

providing for the replacement or complete modernization of all original spinning equipment, minor expansion of the weaving capacity and replacement of few machines in the processing department.

Upon completion of the project (Phases I and II), total annual production in 1981 will reach about 14.4 million lm of 100 percent cotton fabric, 150 tons of cotton wool and 170 tons of sewing thread. The exact scope and optimal timing of Phase III will be determined in light of the results achieved from the proposed project. The proposed project will bring about a significant reduction of losses and is designed to return the Corporation to profitable operations starting 1981 which is the first year of full
capacity utilization. The major risk of the project lies in the possibility that the Corporation may not achieve the production level required to reach profitability after project completion as projected (see paras. 69 and 70).

Estimated Cost:

<table>
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<tr>
<th></th>
<th>Local</th>
<th>Foreign</th>
<th>Total</th>
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<tr>
<td>Civil Works</td>
<td>0.25</td>
<td>0.98</td>
<td>1.23</td>
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<tr>
<td>Machinery &amp; Equipment fob.</td>
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<tr>
<td>(incl. spares)</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Transport (c.&amp;f.) and</td>
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<tr>
<td>Insurance</td>
<td>0.33</td>
<td>1.02</td>
<td>1.35</td>
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<tr>
<td>Erection</td>
<td>0.11</td>
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<tr>
<td>Start-up Expenses</td>
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<td>0.10</td>
<td>0.13</td>
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<tr>
<td>Engineering</td>
<td></td>
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<td>0.20</td>
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<tr>
<td>Management Assistance</td>
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<tr>
<td>Training</td>
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<td>0.09</td>
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Basic Cost Estimate (BCE) 1.37 14.40 15.77

- Physical Contingency 0.14 1.44 1.58
- Price Escalation 0.72 1.37 2.09

Sub-Total 2.23 17.21 19.44

- Interest during Constr. 1.77 0.29 2.06
- Working Capital 2.50 1.50 4.00

TOTAL FINANCING REQUIRED 6.50 19.00 25.50

Financing Plan:

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<thead>
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<th></th>
<th>US$ million</th>
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<tr>
<td></td>
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<td>Government Loan</td>
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<tr>
<td>Total</td>
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### Estimated IDA Disbursements:

<table>
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<tbody>
<tr>
<td>Annual</td>
<td>1.4</td>
<td>4.8</td>
<td>0.6</td>
<td>0.2</td>
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<tr>
<td>Cumulative</td>
<td>1.4</td>
<td>6.2</td>
<td>6.8</td>
<td>7.0</td>
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**Economic Rate of Return:** 13.2 percent.

**Estimated Completion Date:** December 31, 1981

**Staff Appraisal Report:** Report No. 2010-YAR, dated May 26, 1978

Industrial Projects Department
1. I submit the following report and recommendation on a proposed development credit of $7 million equivalent, on standard IDA terms, to the Yemen Arab Republic (YAR), to help finance a Textile Rehabilitation project. The proceeds of the proposed IDA credit would be onlent by the Government to the Yemen Textile Corporation at an interest rate of 7.5 percent per annum plus a service charge of 2.5 percent per annum for a period of twelve years including four years of grace. The OPEC Special Fund is expected to participate with $1.5 million in the financing of the proposed project.

PART I - THE ECONOMY 1/


Introduction

3. Over the last few years YAR has experienced far-reaching changes in its socio-economic structure and the material welfare of its citizens. Following the 1962 Revolution which ended the feudal rule of the Imam and opened the country to the outside world, and after a protracted civil war that lasted till mid-1970, the new Republican Government succeeded in establishing within a surprisingly short period of time, the foundations of a modern state. Technical ministries were strengthened, essential government institutions were created such as the Central Bank and the Central Planning Organization, modern budgetary and banking practices were introduced, and a reasonable level of working effectiveness was achieved by the public administration. Tribal fragmentation, a major obstacle to political stability in the past, is gradually being overcome. Central Government control has been spreading throughout the country and continues to do so.

4. Political integration and the growing influence of central authorities have provided the basis for a rapid development of the public and private sectors. In 1973 the Government launched a Three-Year Development Program (1973/74-1975/76) which subsequently was implemented largely with the help of foreign technical and capital assistance. In its wake, the physical infrastructure was expanded and telecommunication links were built; first attempts were made at lifting agriculture, the mainstay of the economy, out of its

1/ Identical to Part I of the President's Report for the Tihama Development Project II which was distributed to the Executive Directors on May 8, 1978 (Credit approved on May 18, 1978).
medieval setting; industrialization was started, albeit on a small-scale; education was spread at all levels; health services were improved; projects were initiated to build urban water supply and sewage facilities; and rural development was promoted through local development associations.

5. More recently, especially since the quadrupling of international oil prices at the beginning of 1974, there has been an unprecedented increase in personal cash incomes based mainly on remittances by Yemenis who went to work in Saudi Arabia and the Gulf States. It is estimated that workers' remittances rose from some $30 million in 1969/70 to over $800 million in 1976/77. Largely as a result of these cash inflows YAR's per capita GNP has more than doubled in real terms since 1969/70 reaching a level of about $400 1/ in 1976/77. While these developments, together with fast-growing government expenditures for both investment projects and public services, have greatly alleviated Yemen's traditional problems of poverty, famine and rural underemployment, they have created new ones which require urgent attention in the future.

**Major Development Issues**

6. Foremost among these is the problem of manpower shortage which has become the overriding constraint to YAR's development. This shortage has been created by large-scale labor migration to neighboring oil countries which now absorb an estimated 20 percent of YAR's male labor force. At the same time, labor demand has increased sharply within the country as a result of development programs initiated by the Government, and a rapid expansion of private business activity. Labor scarcities of both skilled and unskilled categories are pervasive throughout the economy; but they are particularly pronounced in the public sector largely because salaries of civil servants are lagging behind those offered in the private sector. This seriously limits the absorptive capacity of the public administration.

7. The gap between public and private salaries has been widened by a narrow tax base and by inflation which averaged some 30 percent per annum in recent years. Inflation also creates distortions in resource allocation and income distribution, and weakens the savings propensity of the private sector. The major sources of inflation have been a fast-growing demand for goods and services as well as physical constraints on imports, especially congestion in the Port of Hodeidah. Domestic demand has been fuelled by workers' remittances; by a deficit in the Government's financial transactions; and more recently, by an acceleration of bank credit to the private sector.

8. Another major issue the Government faces at present, is to assure the rational allocation of its rapidly growing investment resources. During the past when funds were more limited and modern facilities were sorely lacking, the authorities found it relatively easy to select high-priority projects such as establishing the basic physical infrastructure, introducing modern education, building irrigation works, power stations or a few factories. With the rapid growth in development spending, however, the range of choices

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1/ Tentative estimate; official figure is $250 per capita, as shown in Annex 1 and based on World Bank Atlas methodology for the period 1974-76.
is increasing very substantially and the long-term costs and benefits of individual projects will not always be as obvious as in the past.

9. Yet, the new problems of affluence as well as recent achievements in development, remarkable as they are, should not distract from the fact that YAR continues to face many of the problems of an underdeveloped country. Productivity levels are still extremely low, especially in agriculture which occupies about three-fourths of the resident labor force. This reflects the very limited investment in physical capital made so far as well as the predominance of traditional skills. Nine out of ten adult persons are illiterate and only one out of every four children in the age group 6-11 is enrolled in primary schools. Over 90 percent of the population reside in rural areas, a large part of whom in remote villages without access to modern transportation, schools, electricity or health services. Moreover, there are serious physical constraints to development in YAR. The country's known natural resources are limited and a rugged topography poses severe obstacles for road transport. Agricultural land and water are both scarce and few mineral deposits have been discovered so far.

Government Objectives

10. The Government is fully aware of these issues—old as well as new ones—and willing to address them with all the means at its disposal. This is reflected in the Government's development objectives as outlined in the first Five-Year Development Plan for the years 1976/77-1980/81. Building on the achievements of the Three-Year Program, the new Plan endeavors to further develop the country's human and natural resources; to strengthen the physical infrastructure; to raise the productivity of the commodity producing sectors; and to improve the standard of living of the people, giving priority to their basic needs for food, health services, education, water supply and other community services. To achieve its objectives the Government has launched an impressive investment and manpower training program which it intends to carry out in close cooperation with foreign donors of capital and technical assistance. While continuing to rely on a market-oriented economic system the authorities foresee increasing collaboration between the public, cooperative and private sectors.

11. The Plan identifies investment opportunities in all major sectors, especially in transport, agriculture, industry, housing, education and public health. The overall investment targets are very ambitious. They envisage an increase in gross fixed capital formation from $170 million in 1975/76 to $1,230 million in 1980/81, implying an annual growth rate of almost 50 percent. The overall investment volume during the five years of the Plan is to be US$3.5 billion. Although not excessive for a country of YAR's size and population (it represents an annual amount of about US$150 per capita), the steep increase in investment proposed by the Plan raises questions of technical feasibility and economic viability.

12. Some progress is already being made in reaching the Government's objectives. One example is the port development project, sponsored by IDA, which will ease congestion in Hodeidah and improve facilities in other ports of entry. The project is designed to meet YAR's requirement for port capacity up to 1985. The resulting unrestricted flow of imports should reduce present
supply shortages thus easing inflationary pressure. In addition, measures have been taken, in consultation with the IMF, to reduce the budget deficit and to restrict the expansion of bank credit to the private sector. Encouraging results are also being achieved in education and manpower training. Enrollment in primary and secondary schools is growing rapidly and programs in technical and vocational training have been started. The University of Sana'a, established in 1970, now has close to 3,000 students, many enrolled in technical disciplines. A large number of Yemeni students (about 2,300) also receive training abroad.

13. Other issues still have to be addressed by the authorities. They include measures designed to strengthen the absorptive capacity of the public sector; to broaden the tax base thus providing financial resources for the necessary increase in government salaries and essential public services; to ascertain the economic viability of future investments so as to avoid sub-optimal utilization of domestic and foreign resources; and to introduce effective maintenance programs for existing and new capital stock.

Economic Growth and Structural Change

14. Since the end of the civil war in mid-1970, economic activity in YAR has expanded vigorously. GDP at constant market prices is estimated to have grown at an average rate of 8–9 percent a year between 1969/70 and 1975/76. Not surprisingly, economic growth was strongest in the modern sectors, reflecting the rapid expansion of foreign and domestic trade, of government services, of transportation and finance. There was also a rapid increase of modern cash crops as farmers took a growing interest in raising vegetables, fruits and chickens. Subsistence agriculture, still the most important economic sector in YAR, grew at a much slower pace (about 3 percent per annum).

15. When interpreting these trends one has to remember that 1969/70 fell into the middle of a prolonged drought period. Agricultural growth, especially in the subsistence sector, therefore reflects in large measure higher levels of precipitation in the final year (1975/76). If this factor is eliminated one can conclude that agricultural expansion was essentially confined to cash crops while subsistence farming just about held its ground and possibly even declined marginally.

16. The expansion of the modern sectors was the result of a variety of factors. Fast growing cash incomes from workers' remittances opened new markets for local merchants and farmers, and provided funds for private investment in housing, transport equipment, agriculture and industry. This coincided with a vigorous expansion of public development expenditures. Initially through various ad hoc projects but later in a more coordinated form through its Three-Year Program and the Five-Year Plan the Government increased its development spending from YR 57 million ($13 million) in 1972/73 to YR 340 million ($76 million) in 1975/76.

17. Although the period since 1970 is relatively short, it has witnessed perceptible changes in the structure of YAR's economy. The shares of modern
agriculture, trade, transport and government services in GDP have all increased during the 1970s while that of subsistence agriculture declined from over 40 percent in 1969/70 to less than one third in 1975/76. But even so, YAR's economy is still very much underdeveloped. The contribution of cash farming and industry (including construction) to GDP is still less than that of subsistence farming.

Domestic and External Finance

18. The rapid growth in money incomes which YAR experienced in recent years, has led to a spectacular increase in overall savings far exceeding the fast growing investment level. In 1975/76, gross national savings reached the equivalent of 24 percent of GNP compared with only 10 percent in 1971/72. While this is, indeed, a very impressive achievement for a country of YAR's low per capita income, it must be borne in mind that the high savings rate was perhaps as much the result of fortuitous circumstances as of deliberate policies. Delayed consumer response to a massive growth of money incomes, together with large capital transfers made by Yemeni businessmen returning from Saudi Arabia, have swelled the pool of national savings to an extent which may not be perpetuated in future years.

19. Virtually all of YAR's national savings are being generated by the private sector while the government sector has had negative savings in the past. This was mainly the result of a narrow tax base (8 percent of GNP in 1975/76) which did not allow the public sector to capture an adequate share of the country's growing money incomes. Shortage of tax revenue has also restricted the expansion of essential public services such as education, public health and maintenance programs for existing capital stock.

20. So far the inadequacy of current revenue has not held back public investment. Generous foreign aid has enabled the Government to finance all projects and programs which it could effectively handle. Moreover, cash grants provided by Saudi Arabia have helped to ease the burden of current expenditures. Although foreign aid is likely to be available in the foreseeable future, it will have to be gradually replaced by domestic resources if the country is to become more self-reliant. The longer term objective of fiscal policy therefore should be to raise sufficient local revenue that the current budget can be balanced and a significant contribution can be made to the financing of government capital expenditures.

21. Significant progress has already been made in this respect during recent years. Current domestic revenue has risen from 73 percent of current expenditure in 1972/73 to 94 percent in 1975/76, while the current deficit has declined both in real and absolute terms. During 1976/77 the current budget was approximately balanced and for 1977/78 a moderate surplus is expected. These are remarkable achievements for a country of Yemen's early state of development.

22. The external financial position of the Yemen Arab Republic has changed dramatically in recent years. While at the beginning of the current
decade foreign exchange was in short supply and a heavy debt burden forced the Government to request the rescheduling of major parts of its outstanding commitments, the country has now entered a phase of comfortable balance of payments surpluses and rapidly growing exchange reserves. The principal reason for this change must be seen in the close and friendly relations that YAR has established with Saudi Arabia and other Arab oil exporting nations whose vast and still growing wealth is spilling over into YAR in the form of workers' remittances and aid flows.

23. Yemen's commodity exports are still extremely low reflecting the country's limited resource endowment and the underdeveloped state of its economy. During 1973/74-1976/77 they averaged approximately $15 million a year, or the equivalent of about 1 percent of GDP. Most exports are of agricultural origin with cotton, coffee and hides being the three major commodities. Imports, on the other hand, have risen sharply from $194 million in 1973/74 to $730 million in 1976/77. This upsurge in import demand reflects the rapidly rising cash incomes, the full convertibility of the Yemen Rial, and the absence of import restrictions. The increase would have been even stronger had there not been physical constraints - particularly in the Port of Hodeidah - to transport foreign goods into the country.

24. With exports lagging behind the rapid growth of imports, YAR's trade deficit reached about $710 million in 1976/77, almost four times as large as in 1973/74. However, YAR's import capacity is only marginally based on its export potential and depends increasingly on its strong surplus position in the service sectors, especially workers' remittances. Net earnings from services have grown even faster in recent years than the trade deficit. As a result, the balance on current account which was in deficit until 1974/75, recorded its first surplus in 1975/76 (US$130 million) which rose to $175 million in 1976/77.

Capital Flows and External Debt

25. Since independence, YAR has received substantial amounts of foreign assistance. Given the country's low per capita income and its UN classification as a "least developed country", most of the aid was provided in the form of grants and concessional loans. Although a complete over-view of all assistance received by the YAR is not possible because of information gaps, it can be estimated that cumulative aid disbursements came close to $750 million by the end of FY1976/77, of which more than half was disbursed in the last 3 years.

26. About three-fifths of the total assistance given so far was provided in the form of non-reimbursable grants, mostly for food aid, technical assistance and more recently, budget support. Food aid has been provided through the World Food Program and a number of bilateral donors. A large part of official grants has been made available in the form of technical assistance. Given the extreme shortage of skilled manpower in YAR, this type of aid has high priority and will be needed by the country for many years to come. Besides the grants YAR received sizeable amounts of official loans and credits. Total commitments exceeded $547 million on June 30, 1977 about half of which
has been disbursed. Drawings on these loans have increased in recent years, averaging $47 million in 1975/76 and 1976/77. More than three quarters of all official loans and credits have been committed for the financing of specific projects with the main emphasis on roads, agriculture, including irrigation, and utilities. The remaining funds were given for commodity assistance or as cash loans.

27. The terms on which the YAR has obtained official loan assistance have been very favorable. Loans from the USSR and the People's Republic of China are, for the most part, free of interest. Western European countries have generally charged between 3/4 percent and 2-1/2 percent. Interest rates charged by Arab countries have varied from 0 percent to 4 percent but Arab commodity assistance has been interest-free. Loan maturities generally range from 5-50 years with a median of 20-30 years.

28. Yemen's external public debt outstanding on June 30, 1977 was estimated at $529 million, of which $292 million was disbursed. The major creditors were IDA, USSR, China, Germany, the Arab Fund and the Kuwait Fund. IDA credits accounted for $110 million or about 20 percent of the total debt reported. Because of the very favorable terms of borrowing, the debt service payments are estimated at only about $6 million for 1976/77, equivalent to less than one percent of gross foreign exchange earnings (including workers' remittances). Although service payments are expected to rise in the next few years, the burden of such payments should continue to remain small in relation to YAR's exchange earnings.

29. In recent years YAR has accumulated large foreign exchange reserves. At the end of June 1977 they reached $920 million or the equivalent of about 1 year's imports. This reflects rapidly rising exchange earnings, a relatively high level of foreign aid and last but not least, the country's limited absorptive capacity. Yemen's imports are still at a low level ($135 per capita in 1976/77) and are likely to grow rapidly as present physical and administrative bottlenecks are being overcome. Worker's remittances and aid inflows, on the other hand, are of more volatile nature and their volume could change substantially within a relatively short time. Yemen's present comfortable reserve position may therefore be a passing phenomenon and could be eroded quickly if recent trends in foreign exchange flows are not sustained. The reserve position has also to be viewed in the context of the country's dependence on agriculture and its vulnerability to the vagaries of weather. A repetition of the severe drought which gripped YAR from 1966-72 would necessitate the import of foodstuffs in even higher than the present volume adding substantially to the country's foreign exchange requirements.
30. The proposed credit would be the sixteenth to YAR, bringing total IDA commitments to $138.8 million. The utilization trend of the funds from the ongoing credits has been fairly satisfactory. Disbursements in FY76 were $10.8 million and in FY77 $19.2 million. At the end of the third quarter of FY78, total disbursements were $50.6 million. Annex II contains a summary statement of IDA credits and Bank grants and notes on the execution of ongoing projects, as of April 30, 1978.

31. The major focus of the World Bank activity in YAR has been to develop the basic institutions, skills and physical infrastructure, prerequisite for development, and to begin lending in the dominant productive sector--agriculture. In 1971, the Bank made a grant of $200,000 to help finance, jointly with the Kuwait Fund for Arab Economic Development, a team of planning and economic advisors; in September 1973 a second Bank grant of $200,000 to make possible the continuation and expansion of the planning team services, was approved. In January 1976, the Bank approved a third grant of $120,000 to provide for the continuation of the services of a planning team including those of a management/public administration expert. The Kuwait Fund joined with a grant of about $425,000. The team has been and still is instrumental in assisting the Central Planning Organization (CPO) in formulating its development strategy, in preparing policies needed to implement the strategy and in training Yemeni staff in the CPO. The Bank is also providing technical assistance for institution building to the Ministry of Agriculture through the services of seven advisors, financed by UNDP with the Bank as Executing Agency.

32. To assist in building up the essential physical infrastructure and related institutions, IDA has extended three credits for highways for $28.2 million in 1972, 1976 and 1978. The Kuwait Fund for Arab Economic Development participated in the financing of the second project with $5 million equivalent. To expand YAR's inadequate port facilities and to strengthen its management capabilities, IDA approved in May 1977 a credit of $6 million for a port development project. The Kuwait Fund for Arab Economic Development participated with $8 million equivalent. IDA extended a credit for Water Supply in Sana'a in 1974 for $6.3 million, a credit for Water and Sewerage in Hodeidah in 1975 for $8.1 million, and in December 1976 a credit for the Second Sana'a Water Supply and Sewerage Project for $10.0 million, all three of which support the National Water and Sewerage Authority. The Arab Fund for Economic and Social Development contributed $21 million to finance the sewerage component in the Hodeidah project and $17.1 million to finance the water supply component in the second Sana'a project. The Saudi Fund for Development provided $14.5 towards financing part of the cost of the latter. To assist in the development of education, IDA has extended two credits, the first in 1973 for $11 million,

1/ Almost identical to Part II of the President's Report for the Tihama Development Project II which was distributed to the Executive Directors on May 8, 1978.

2/ Includes a credit of $11.5 million for a Highway III project and a second credit of $10.5 million for the Tihama Development Project II which were approved by the Board on April 27 and May 18, 1978, respectively.
which together with aid from UNDP, Federal Republic of Germany (FRG) and the United Arab Emirates, financed expansion of teacher training and secondary and vocational education; and the second for $8 million in 1976 which is a followup to the first project. To develop infrastructure and production in YAR's major sector, agriculture and agro-industries, IDA has made five credits. The first credit of $10.9 million in 1973 was for the Tihama Agricultural Development project, to which the Kuwait Fund contributed $6.4 million; to meet major cost increases, the Kuwait Fund approved in 1975 a loan of $9.6 million to the project, and IDA also approved a supplementary credit of $10.3 million in March 1976. The second agricultural credit of $10.0 million was made for the Southern Uplands Rural Development project in 1975 in which the Abu Dhabi Fund participated with $10.0 million. The third credit of $5.2 million for a Grain Storage and Processing project was approved in June 1976. The Saudi Fund for Development joined with a loan of $11.0 million under parallel financing arrangements. A fourth credit of $5.0 million for a Livestock Credit and processing project was approved in October 1976. The Kuwait Fund ($11.6 million), the Netherlands ($8.9 million) and the UK ($2.4 million) are participating in the financing of the project under parallel financing arrangements. A fifth credit of $10.5 million was approved in May 1978 for the development of agriculture in Wadi Rima of the Tihama Region. A $2.3 million credit for an Industrial Estate project was approved in 1974 and is designed to stimulate investment in small-scale industry and provide a model for future industrial development.

33. Future World Bank activity will concentrate on reinforcing the institutional progress made in the essential sectors of transportation, agriculture and public utilities, help provide the necessary manpower training, and continue to help devise an appropriate development strategy and investment program. Particular attention in preparing future projects will continue to be given to the country's ability to implement these projects and to ensuring the availability of key staff and other means needed for successful implementation. In keeping with this strategy, a power project was appraised in November 1977. An agricultural project in Wadi Mawr, and an education project are now being appraised. A fisheries project, agricultural projects in Wadi Surdud and in the Southern Uplands and a water supply and sewerage project in the cities of Ibb and Dhamar are in the preparation stage. The World Bank lending strategy recognizes that YAR is among the 29 least-developed countries as classified by the U.N. and thus requires special assistance, which justifies IDA financing of a large part of project costs, including local expenditures. Since project costs are in excess of the limited IDA funds available, efforts have been made to obtain cofinancing from other donors. In addition to its own commitments of $109.8 million, IDA has also, since 1973, successfully played a catalytic role through its projects in securing about $143.0 million equivalent of cofinancing from other aid donors (Arab Fund $38.1 million; Kuwait Fund $41.5 million; Abu Dhabi Fund $11.0 million; United Arab Emirates $8.0 million; Saudi Fund for Development $25.5 million; UNDP $6.6 million; FRG $0.58 million; the UK $2.4 million and the Netherlands $8.9 million). YAR's level of poverty and the weak structure of its balance of payments have in the past justified a large portion of local currency financing by the Association; however, YAR has contributed an increasing portion of local currency financing
and is expected to continue to finance a rising portion of its development expenditures in the future. Recently, the Bank assisted the Government in establishing a Project Monitoring System to ensure effective project implementation and to enable it to measure the progress made against the set targets. The system is now under implementation and the Bank has been requested by the Government to continue its assistance in this field.

34. The Executive Directors of the International Finance Corporation approved on April 11, 1978 an investment of $3.15 million to help finance a dairy and juice project. This is IFC's first activity in YAR.

PART III - THE INDUSTRIAL SECTOR AND THE TEXTILE INDUSTRY

Background

35. Industry in the YAR is at a very early stage of development. Although there are a large number of manufacturing enterprises, and employment in the construction industry is also substantial, most operations are extremely small, and are based on traditional production methods. However, in recent years a few medium-sized manufacturing firms have been established both in the public and private sectors. A construction boom has led also to the emergence of several larger contracting companies.

36. There is currently considerable interest and enthusiasm among the private sector for expanding existing firms and establishing new manufacturing enterprises. This is manifested in the substantial number of projects for which official approval is being sought, and in the demand for plots and factory space on the recently established Sana'a industrial estate. The Government also gives high priority to industrial development in its new Five-Year Plan, and has reacted positively to approval requests by the private sector. Enthusiasm is less noticeable within Government and in the private sector for a further rapid expansion of the local construction industry, in spite of the boom in building activity and the very large construction demands of the Five-Year Plan 1976/77-1980/81. This follows basically from the management and manpower problems which the construction industry has encountered in the last few years.

37. Determination to push ahead with the development of manufacturing industry, both public sector and private, is a major factor favoring success in this. Other important factors supporting industrial development are: (a) the knowledge of local markets and how to tap them which private sector manufacturers bring from their predominantly trading backgrounds, (b) the quite significant number of private individuals or families able to raise, from profits from past trading activities and land transactions, and in commercial loans, sufficient funds (up to YR 5 million) to set up medium-sized industrial undertakings; few, however, are able to raise more substantial amounts, and (c) the natural protection provided by high transport cost for certain products, especially construction materials.
Manufacturing industries excluding construction contribute only about 4 percent to GDP and employed in 1975 a total of about 8,000 people. Industry as a whole including construction and utilities employs about 90,000 persons and contributes some 10 percent to GDP. The Yemen Textile Corporation which employs about 1,600 people, is YAR's largest industrial employer, providing about 20 percent of total employment in the manufacturing sub-sector. There are only a few other manufacturing enterprises in the public sector such as the Yemen Cement and Tobacco Companies. Since the end of the civil war (1969), private entrepreneurs (traditionally merchants) have become increasingly active in industry and, particularly in the last two years have established some small and medium-scale plants in the manufacturing of consumer goods and construction materials.

The Textile Industry

In the past, traditional handweaving was a fairly important activity in YAR, particularly in the coastal Tihama region where cotton is grown. In recent years, however, this activity has been declining due to a shift in consumer taste to imported products and because of migration of workers to the main cities.

In the private sector there currently exists only one small knitting plant, but private entrepreneurs are showing growing interest to become more active in knitting and in the manufacturing of ready-made garments. However, there are currently no prospects for private investment in spinning and weaving mills. This is because investors who are mostly traders are only interested in less complex investments of a smaller, and occasionally, medium scale.

The Yemen Textile Corporation

The Yemen Textile Corporation (Corporation), a 100 percent Government-owned company, owns YAR's only two spinning and weaving mills. The first is a fully integrated mill located in Sana'a, with a design capacity of 10 million linear meter (lm) per year of 100 percent cotton fabrics. The construction of this mill was completed in 1967 with assistance from the People's Republic of China. The second mill is a very small, but also integrated, cotton spinning and weaving plant in Bajil, with a design capacity of 2.1 million lm per year. The Bajil mill was built in 1955 by a French supplier. However, due to political difficulties which forced the departure of the supplier's representatives, the mill did not start operation until 1973 and only some of its spinning equipment was brought into production. The weaving and finishing equipment was not put into operation. The Bajil mill has been supplying about 100 tons per year of coarse yarn to handweavers. The market for this commodity is gradually decreasing as this handicraft is slowly disappearing. The Bajil mill currently employs about 120 people. The possibility of rehabilitating the Bajil mill was studied in detail in 1972. Its rehabilitation, however, was found financially and economically unviable. Since then, the condition of the mill has further deteriorated and economic factors (e.g. increased wages and declining productivity) have become much more disadvantageous. Therefore,
the Corporation plans to gradually phase out production at this mill and to close it down by the end of 1980.

42. Until 1974 the Sana'a mill operated near its rated capacity, producing about 1,200 tpy of yarn and 9 to 10 million lm of fabric. Starting in 1975 the production began to decline and has fallen to a level of about 4.9 million lm in 1977. The Corporation achieved small profits until the end of 1975. In 1976 production fell to a level of only 55 percent of its designed capacity resulting in a loss of YR 4.0 million ($0.9 million) which jumped to YR 7.5 million ($1.7 million) in 1977 because of a further decline in production and rise in costs.

43. The main reasons for the decline in production and the increasing losses are: (i) weak management; (ii) departure of the Chinese experts who provided technical assistance until the end of 1974; (iii) rapidly increasing cost of labor in YAR resulting in increasing staff turnover, since wages paid by the Corporation, although raised by over 30 percent per annum between 1972 and 1977, have fallen behind those paid elsewhere in the private sector and abroad; (iv) labor-intensive machinery which aggravates the problem of high cost of labor; (v) competition from imported textiles; and (vi) a poorly planned and implemented modernization program that caused further disruption and decline in production.

44. The most important factor contributing to the Corporation's difficulties is the high cost of labor. Following the emigration of about 0.7 million Yemenis to the neighboring oil producing countries and an economic boom in YAR fueled by workers' remittances (estimated to have reached a level of $800 million in 1976/1977) as well as a steady flow of bilateral and multilateral development assistance, wage rates throughout the economy, but particularly in the construction industry and other parts of the private sector, have been increasing rapidly. Today's wages in YAR's textile industry are about 3 times as high as in Syria and about 2 times as high as in Algeria.

45. The future prospects of YAR's textile industry depend to a significant degree on the extent to which women can be employed. To date only 25 percent of the workers employed in the Sana'a mill are women. Since no women emigrate for work abroad, there is a significant potential for employing female workers in increasing numbers. Therefore, as part of the proposed project, consultants would be employed by the Government by October 31, 1978 on terms and conditions satisfactory to IDA to carry out a study on the social, economic, cultural and educational aspects of increased employment of women in the textile industry and possible measures to increase their employment (Section 3.02(a) of the draft Development Credit Agreement).

The Market

46. In the last few years, consumption of textiles in YAR has increased at an average rate of 13.5 percent per year to a total of 41.5 million lm in
1976. In spite of these recent increases, the level of textile consumption in YAR is still below that in other countries with comparable per capita income. Consumption of textiles in YAR is therefore expected to continue to grow at about 9 percent per annum through 1979 and at 4.2 percent per annum thereafter. The Corporation's production satisfied 42 percent of demand in 1972 but only 16 percent in 1976 due to the increase in demand and the 50 percent drop in local output. After completion of the rehabilitation program, the Sana'a mill would provide about 25 percent of projected demand.

Other Prospects in the Textiles Industry

47. In addition to the proposed project of rehabilitating the Sana'a mill, there are currently two other projects under discussion. The first one is a cotton spinning and weaving mill to be supplied by the People's Republic of China and to be built near Hodeidah. The mill would be similar to the Sana'a mill. The implementation of the project is currently being reconsidered since the new mill, with its labor-intensive Chinese equipment, would likely face the same problems as are now being encountered by the Sana'a mill. The second project is a polyester/viscose weaving and finishing mill, using imported yarn to produce about 4 million lm per year of suiting material. The project, for which a prefeasibility study exists, is to be built in Dhamar. The Government requested IDA to help finance this project. A review by IDA of the prefeasibility study led to the conclusion that the proposed project was not economically viable. In any case, efforts should first be concentrated on the rehabilitation of the Sana'a textile mill, and the strengthening of its management. The results achieved under this rehabilitation project will provide important insights into the feasibility of future textile mills in YAR. The Government has agreed that it will not implement any other textile project in the public sector costing in the aggregate more than the equivalent of $1 million without prior consultation with IDA (Section 4.01 of the draft Development Credit Agreement).

Previous IDA-Financed Projects in the Industrial Sector

48. IDA's involvement in this sector commenced in 1974 with the financing of the Industrial Estate Project (Cr. 465 YAR). The project provides infrastructure and standard factory buildings and technical assistance to private entrepreneurs for the establishment of small and medium-scale industry in Sana'a. The construction of the industrial buildings is now completed. Several entrepreneurs have already signed lease agreements for factory space and developed plots. In addition, the Project assisted in the establishment of the Industrial Estate Development Authority and also for its future technical and managerial support.

PART IV - THE PROJECT

Background

49. The project was prepared and appraised by Bank staff and consultants in December 1977. A follow-up mission visited YAR in February 1978 to discuss
with the Government the final scope of the project and the proposed financing plan. Negotiations were held in Washington from May 17 to 18, 1978. The YAR delegation was headed by Dr. Mohamed Al-Ariki, Deputy Chairman of the Central Planning Organization. A report entitled "Staff Appraisal Report, Textile Rehabilitation Project, Yemen Arab Republic" (No. 2010-YAR), dated May 26, 1978 is being circulated separately to the Executive Directors. The main features of the Credit and the Project are mentioned in the Credit and Project Summary and in Annex III.

Project Objectives and Description

50. The proposed project comprises the first and second phases of a rehabilitation program of the Sana'a textile mill that will be implemented in three phases, and aims at returning the mill to full capacity utilization and profitability through (i) the provision of management and technical assistance; (ii) replacement of most of the original equipment, and (iii) expansion of the mill's capacity to 16.0 million lm (18.2 million m²) per year of fabric and the introduction of new and more profitable types of fabrics as well as sewing thread and cotton wool. The rehabilitation program, while significantly increasing the volume and value of the mill's production, will not increase the total labor requirements of the mill. The project was selected after review of several alternative programs of rehabilitation.

51. The project comprises:

(a) **Phase I (1978-79)**

(i) reconditioning of the existing machinery and equipment; (ii) immediate replacement of a small number of machines; (iii) completing the erection and start-up of the equipment purchased earlier by the Corporation under its own modernization program; (iv) introduction of an incentive scheme (currently not in existence) based on reasonable work loads to improve productivity, and (v) management and operating assistance and training through a team of foreign experts.

(b) **Phase II (1980-81)**

Replacement or complete modernization of all original spinning equipment, minor expansion of the weaving capacity and replacement of a few machines in the processing department.

52. Upon completion of the project (Phases I and II), the total annual production in 1981 will reach about 14.4 million lm of 100 percent cotton fabric, 150 tons of cotton wool and 170 tons of sewing thread. The exact scope and optimal timing of Phase III will be determined in light of the results achieved from the proposed project. It was agreed, that the Corporation assisted by the experts employed under the proposed project, will submit to IDA by June 30, 1980 a study on the exact scope, timing and viability of further modernizing the Sana'a mill (Section 3.04 of the draft Project Agreement). In principle, however, Phase III would consist of the replacement or
complete modernization of the original weaving and processing equipment. The new equipment would also provide for the processing of blended (polyester/cotton) fabrics using imported blended yarn and thus introducing weaving of blended fabrics for the first time in YAR.

Management and Technical Assistance

53. The Corporation operates as an independent commercial entity under the general supervision of the Ministry of Economy. The Chairman of the Board of Directors and the General Manager are the two chief executive officers of the Corporation. At the end of February 1978, the Government replaced the Corporation's Board of Directors including the General Manager who were not successful in managing the affairs of the Corporation. The new Chairman and the General Manager will be supported by seven experts: an advisor to the General Manager, a technical manager, a weaving manager, a finishing manager, a maintenance engineer for spinning, a maintenance engineer for weaving and a printing expert. Provision has also been made for 36 man-months of short-term experts of different specializations. Technical assistance to the Corporation provided under the proposed project will extend until end 1981. By June 30, 1981, the Government and the Corporation will consult with IDA on the need for the continuation of technical assistance beyond December 31, 1981 (Section 4.04 of the draft Development Credit Agreement). Furthermore, the Corporation will prepare and submit to the Association by June 30, 1979 a detailed training program and shall thereafter carry out such a program in accordance with a time schedule to be agreed with the Association (Section 2.03 of the draft Project Agreement). The program will include training in YAR in a new training center to be established with some of the machinery to be replaced under the project, and also abroad.

Raw Materials and Utilities

54. The main raw material required is cotton. Until now sufficient cotton was available locally. However, the quantity of locally produced cotton dropped from a peak of 27,200 tons in 1974/75 to 5,300 tons in 1976/77. The requirements of the Sana'a mill after completion of the project will be about 9,000 tons per year. The Government is making efforts to increase local production of cotton, but it is not certain whether sufficient quantity of locally produced cotton will be available to meet the needs of the mill after project completion. The Government agreed that the Corporation will be permitted to purchase cotton from the most economic sources including imports if necessary (Section 4.02(a) of the draft Development Credit Agreement). All other materials and fuel are imported.

55. The Sana'a mill currently generates its own power and is not connected to the public grid. Since most of the power consumption in YAR, and in Sana'a in particular, is currently for lighting purposes, the Yemen General Electric Company (YGEC) is looking for industrial consumers to achieve a more even load. Therefore, provision is made in the project, under Government financing for a connection of the mill to the public grid of Sana'a with the objective of first buying the incremental power required for the project and
eventually the entire requirements after phasing out the mill's own diesel generators. As part of a project currently under way (with financing from the Arab Fund for Economic and Social Development) to expand YGEC's generating capacity, a study will be carried out in 1978 of the appropriate structure and level of tariffs to be charged by YGEC. Pending the outcome of this study, the Corporation, with the assistance of its consultants, will review its present decision to purchase its incremental power requirements from YGEC or whether to increase its own generating facilities.

56. The Sana'a mill at full capacity operation consumes about 1,000 tons per day of water or 30 litres per meter of fabric, which is about double the standard of modern textile mills. This represents a particularly serious problem in Sana'a where water is in short supply. Therefore, as a first step, the project provides for replacement of the mill's fabric boiling and bleaching range with equipment using less water. Secondly, the consultants will study the feasibility of installing a water recycling system. If this is not feasible, an industrial water treatment plant will be provided as part of the project to treat the polluted water prior to its discharge.

Product Mix, Marketing and Sales

57. Currently the Sana'a mill produces four products. In view of the shifts that have been taking place in consumer preference, as evident from import statistics, the product mix will be altered by the end of 1981. In establishing the new product mix, an attempt was made to shift to products for which (i) there is a ready local market and which sell at attractive prices; (ii) the medium staple Yemeni cotton is well suited, and (iii) 100 percent cotton fabric is at least disadvantage or at an advantage over blended fabrics. Under the second part of the modernization program to follow the project after 1981, the Sana'a mill will introduce the production of blended fabrics.

58. Locally-produced fabrics are sold to private wholesalers and retailers. About 40 percent of the production is sold in Hodeida and 30 percent each in the Taiz and Sana'a/Dhamar areas. Ex-factory prices for fabrics and garments are established by the Corporation. At present, it is difficult to estimate the profit margins for distributors who also obtain a flat sales commission regardless of the quantity of purchase or promptness of payment. Although payments are supposed to be made in 30 days, normally, they are not. The Corporation has receivables equivalent to 35 percent of its 1977 sales. Given the Corporation's poor financial position, the consultants to be appointed under the project will review the marketing system and sales policy and help introduce appropriate changes. The Corporation has agreed to submit this study to the Association by June 30, 1979, for discussion, and to introduce in light of the study's agreed recommendations, such changes in these policies (Section 3.03 of the draft Project Agreement).
Housing

59. The explosion of money incomes in YAR was accompanied by a very high rate of inflation, estimated to have been at least 30 percent in recent years. In particular, the cost of housing in Sana'a has increased tremendously. To remedy this situation, the Government's Five Year Plan provides for several housing projects, including one for the workers of the Sana'a textile factory. This would, hopefully, improve the standard of living of the workers, and would substantially reduce the problem of staff turnover in the factory. During negotiations, the YAR delegation informed the Association that a contract for the construction of about 2,000 housing units has already been signed and that about 800 units will be reserved for the workers of the Sana'a Textile Mill. It is expected that construction of these units will start in July 1978.

Project Cost and Financing

60. The estimated cost of the project including contingencies is $25.5 million with a foreign exchange component of $19.0 million. The average cost of one man-month of technical assistance is estimated at about $6,500. The proposed IDA credit of $7 million would finance 100 percent of the foreign exchange costs of (i) selected machinery and equipment and (ii) the consultants' services and training. The Government's contribution would be $17 million of which $4 million would be allocated towards increasing the Corporation's working capital, $2 million for interest during construction and the balance of $11 million, together with the expected loan of $1.5 million from the OPEC Special Fund would finance the rest of the project components. The signing of a loan agreement between the Government and the OPEC Special Fund for an amount of $1.5 million would be a condition of effectiveness of the proposed IDA credit (Section 6.01 (d) of the draft Development Credit Agreement). Details of the cost estimates and financing are given in the Credit and Project Summary.

Onlending Arrangements

61. The proceeds of the IDA credit would be onlent by the Government to the Corporation at an interest rate of 7.5 percent per annum plus a service charge of 2.5 percent per annum for a period of 12 years including 4 years grace (Section 3.01 (b) of the draft Development Credit Agreement). The Corporation will bear the foreign exchange risk. The execution of a subsidiary loan agreement between the Government and the Corporation on this would be a condition of effectiveness of the IDA credit (Section 6.01 (b) of the draft Development Credit Agreement). In addition, half of the Government's total contribution of $17 million would be in the form of a loan and the other half in the form of equity participation. The Government's loan to the Corporation would carry the same terms as those at which the IDA funds would be onlent (Section 3.01 (d)(ii) of the draft Development Credit Agreement). The signing of a loan agreement between the Government and the Corporation for an amount of $8.5 million would be a condition of effectiveness of the proposed IDA credit (Section 6.01 (c) of the draft Development Credit Agreement). The other half of the Government's contribution which is to be provided
as equity will be made in two tranches. The first tranche will be made by August 1, 1978 and the second by January 1, 1979 (Section 3.01(d)(i) of the draft Development Credit Agreement).

Procurement

62. Equipment contracts under IDA financing would be awarded after international competitive bidding in accordance with the Bank's "Guidelines for Procurement", March 1977. Items to be financed from the IDA credit and estimated to cost less than $100,000 can be procured after having obtained offers from suppliers representing at least three Bank member countries and Switzerland. The total cost of items to be so procured will not exceed $500,000. Consultants' services under IDA financing will be provided by qualified and experienced experts who would be employed in accordance with terms of reference and conditions of employment satisfactory to IDA (Section 2.02 of the draft Project Agreement).

Disbursements

63. The proceeds of the proposed IDA credit would finance 100 percent of the foreign exchange costs of: (i) selected machinery and equipment, and (ii) the consultants' services and training. In order to expedite the rehabilitation process of the mill, in April 1978 the Corporation appointed a team of management experts. Retroactive financing of their services, starting May 1, 1978 and up to $300,000 is therefore proposed to be provided from the IDA credit.

Financial Analysis

64. Financial projections for the Corporation indicate that without the proposed rehabilitation project, the Corporation's production would decline further and its losses would continue to increase to the point where liquidation of the Corporation would become unavoidable. The project, however, is designed to bring about a significant reduction of losses during the period 1978 to 1980 and to return the Corporation to profitable operations starting with 1981 which is the first year of full capacity utilization following project completion. The project will yield a financial rate of return of 15 percent. It was agreed that the Corporation will observe certain financial covenants, namely to maintain a current ratio of current assets to current liabilities of at least 1.5:1 and not to incur any debt unless the net revenues from its operations are at least 1.5 times the maximum debt service in any succeeding fiscal year, and in any event not to incur any debt if, after incurring such debt the ratio between the total debt of the Corporation and its capital and surplus exceed 60:40 (Sections 4.04 and 4.05 of the draft Project Agreement). Should adverse developments bring the Corporation's current ratio below the required level, the Government will provide or cause to be provided to the Corporation all funds needed so that the Corporation's current ratio does not fall below 1.2 (Section 4.05 of the draft Development Credit Agreement). The Corporation would also not pay any dividends or make cash transfers to the Government if doing so would reduce the Corporation's current ratio below 1.5
(Section 4.05(c) of the draft Project Agreement). In addition, the Corporation would not make any additional investment of more than $1 million equivalent until five years from project completion, without prior presentation of evidence satisfactory to the Association, that the project or expansion requiring such investment would not adversely affect the Corporation's managerial and financial position (Section 3.02 of the draft Project Agreement).

Reporting Requirements and Auditing

65. The consultants to be appointed under the project will develop and implement improved financial planning and control and management reporting procedures for the Corporation. They will also prepare monthly progress reports which will be submitted to the Corporation and to IDA. In addition, quarterly reports will be prepared on the financial status of the Corporation. It was agreed that the Corporation will appoint a qualified independent auditor acceptable to IDA to carry out a full audit of the Corporation at the end of its fiscal year and to make the full report of such audit available to IDA (Section 4.02 of the draft Project Agreement).

Ecology

66. Provision will be made under the project to bring the Sana'a mill’s discharge of solid, liquid and gaseous waste to within internationally accepted limits. The project also provides for replacement of the present air conditioning system in the spinning and weaving plant to achieve better operational efficiency and working environment. The industrial water treatment plant will be designed to keep the level of biological oxygen demand (BOD) and the pH values for the treated water below 100 ppm and 6-8, respectively, which is ecologically acceptable.

Economic Analysis

67. Current world market prices (C.I.F. YAR) for textiles of the type manufactured by the Corporation are on average 15 percent below domestic prices. World market prices for textiles reached a peak in 1973 and since then they have declined because of the widespread recession in the textile industry. This decline in prices in the face of rising input costs is not expected to continue once the recession is over and market distortions are corrected, bringing the world market prices back to the long-term trend line. Currently, the extent of depression of prices varies from product to product. It is particularly noticeable for the staple items which are commonly produced by developing countries such as plain-woven, light-weight fabrics e.g. shirting and poplin which are also the main products of the Sana'a mill. It is assumed, therefore, that world prices of such fabrics on average would increase in real terms gradually by 15 percent over the next three years or so to approach the long-term trend prices. Using these assumptions, the economic rate of return of the project would be 13.2 percent. The economic rate of return is calculated by assuming that the shut-down of the mill is the alternative to the project.
Fiscal and Social Impact

68. The Corporation is a fully Government-owned enterprise. The proposed project aims at returning the Sana'a Textile Mill to full capacity utilization and profitability after years of losses, thus having a positive impact on the YAR economy. The proposed project will also have a significant social impact since it will help maintain about 1,600 employment opportunities, improve working conditions and provide for a study on the social, economic, cultural and educational aspects of employment of women, and possible measures to further enhance their employment.

Risks

69. The major risk of the project lies in the possibility that the Corporation may not achieve the production level required to reach profitability after project completion as projected. While the production volume and production costs and sales are based on realistic assumptions adverse developments could take place in three areas: (i) unsuccessful management; (ii) unexpected increases of raw material and of labor costs; (iii) world market prices of textile would not recover in the longer term from their currently depressed level.

70. Through its recent appointment of a new management, the Government had demonstrated its awareness of the management problem and its readiness to take the necessary action if required. The personnel of the mill is aware that they need technical assistance and have expressed their keen desire for such assistance. The YAR Government recognizes the importance of technical assistance at this stage of its economic development and has always been responsive to such assistance which substantially enhances the chances of its success. The present high wage rates are essentially due to the strong labor demand from the modern sector and from abroad, and the very limited supply of domestic skilled or semi-skilled manpower. However, this situation is likely to change over the next few years. The supply of domestic labor seeking employment in the modern sector is likely to more than double during the present Five-Year Plan period. The principal sources of this supply will be returning migrant workers, graduates from the rapidly expanding education system and women. Even if the total number of Yemenis working abroad continues to increase marginally over the next few years, there will be a continuous turnover with some migrants returning home and new workers emigrating from the subsistence sector. Finally, the assumption used in this report with respect to international textile prices is that they will increase by 15 percent in real terms in the next three years over their currently depressed level. Even if prices were to increase by only 9 percent, the economic return would still remain satisfactory at 10 percent. This is in line with the assumption used for other textile projects and in line with the general expectation of textile experts. The three risks listed above are, therefore, considered acceptable and the project is worthwhile undertaking.
PART V - LEGAL INSTRUMENTS AND AUTHORITY

71. The draft Development Credit Agreement between the Yemen Arab Republic and the Association, the draft Project Agreement between the Association and the Corporation, and the recommendation of the Committee provided for in Article V, Section 1(d) of the Articles of Agreement are being distributed to the Executive Directors separately.

72. Features of the Development Credit Agreement of special interest are referred to in Section III of Annex III. Section 6.01 of the draft Development Credit Agreement provides the following conditions of effectiveness: (i) the execution of the Project Agreement; (ii) the execution of a subsidiary loan agreement between the Government and the Corporation to govern the on-lending terms and conditions of the proceeds of the IDA credit; (iii) the signing of a loan agreement between the Government and the OPEC Special Fund for an amount of $1.5 million; and (iv) the signing of a loan agreement between the Government and the Corporation for an amount of $8.5 million.

73. I am satisfied that the proposed Development Credit would comply with the Articles of Agreement of the Association.

PART VI - RECOMMENDATION

74. I recommend that the Executive Directors approve the proposed Development Credit.

Robert S. McNamara
President

Attachments
June 2, 1978
Washington, D.C.
# TABLE 3A

## YEMEN ARAB REP. - SOCIAL INDICATORS DATA SHEET

### LAND AREA (THOU KM2)

- **TOTAL**: 195.0
  - **AGRIC.**: 15.2

### GNP PER CAPITA (US$)

#### REFERENCE COUNTRIES (1970)

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<thead>
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<th></th>
<th>1960</th>
<th>1970</th>
<th>ESTIMATE</th>
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</thead>
<tbody>
<tr>
<td>AFGHANISTAN</td>
<td></td>
<td></td>
<td>250.0*</td>
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<tr>
<td>NEPAL</td>
<td>100.0</td>
<td>70.0</td>
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<tr>
<td>JORDAN**</td>
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</tr>
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</table>

### POPULATION AND VITAL STATISTICS

#### POPULATION ($M, YR. MILLION)

- **TOTAL**: 5.5**
  - **URBAN**: 8.0

#### POPULATION DENSITY

- **PER SQUARE KM.**
  - **AGRIC.**: 362.0
  - **PER 50.0 KM. AGRICULTURAL LAND**: 362.0

#### VITAL STATISTICS

- **CRUDE BIRTH RATE (/THOU. AV.)**
  - **50.5**
- **CRUDE DEATH RATE (/THOU. AV.)**
  - **24.1**
- **INFANT MORTALITY RATE (/THOU)**
  - **200-300**
- **LIFE EXPECTANCY AT BIRTH (YRS)**
  - **37.0**

### GROSS REPRODUCTION RATE

- **3.5**

### POPULATION GROWTH RATE (%)

#### TOTAL

- **1.9**

#### URBAN

- **2.2**

### AGE STRUCTURE (PERCENT)

- **0 TO 14 YEARS**: 31.0
- **15 TO 64 YEARS**: 58.0
- **65 YEARS AND OVER**: 11.0

### AGE DEPENDENCY RATIO

- **0.9**

### ECONOMIC DEPENDENCY RATIO

- **2.2**

### FAMILY PLANNING

#### ACCEPTORS (CUMULATIVE, THOU)

- **250.0**

### EMPLOYMENT

- **TOTAL LABOR FORCE (THOUSAND)**
  - **1140.0**
- **LABOR FORCE IN AGRICULTURE (%)**
  - **73.0**
- **UNEMPLOYED (% OF LABOR FORCE)**
  - **14.0**

### INCOME DISTRIBUTION

- **% OF PRIVATE INCOME REC'D BY**
  - **HIGHEST 5% OF HOUSEHOLDS**
  - **HIGHEST 20% OF HOUSEHOLDS**
  - **LOWEST 20% OF HOUSEHOLDS**
  - **LOWEST 40% OF HOUSEHOLDS**

### DISTRIBUTION OF LAND OWNERSHIP

- **% OWNED BY TOP 10% OF OWNERS**
- **% OWNED BY SMALLEST 10% OWNERS**

### HEALTH AND NUTRITION

- **POPULATION PER PHYSICIAN**
  - **143500.0**
- **POPULATION PER NURSING PERSON**
  - **1683.0**
- **POPULATION PER HOSPITAL BED**
  - **2060.0**
- **CALORIES (% OF REQUIREMENTS)**
  - **82.0**
- **PROTEIN (GRAMS PER DAY)**
  - **65.0**
- **DEATH RATE (/THOU) AGES 1-4**
  - **5.0**

### EDUCATION

- **ADJUSTED ENROLLMENT RATIO**
  - **PRIMARY SCHOOL**: 8.0
  - **SECONDARY SCHOOL**: 6.0**
- **YEARS OF SCHOOLING PROVIDED (FIRST AND SECOND LEVEL)**
  - **12.0**
- **VOCATIONAL ENROLLMENT (% OF SECONDARY)**
  - **2.2**
- **ADULT LITERACY RATE (%)**
  - **10.0**

### HOUSING

- **PERSONS PER ROOM (URBAN)**
  - **3.0**
- **PER CAPITA SUPPLY OF NEWSPRINT (KG/YR PER CAP)***
  - **0.1**

### CONSUMPTION

- **RADIO RECEIVERS (PER THOU POP)**
  - **13.0**
- **PASSenger CARS (PER THOU POP)**
  - **3.0**
- **ELECTRICITY (KWH/YR PER CAP)**
  - **2.0**

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*See notes and definitions on reverse*
**DEFINITIONS OF SOCIAL INDICATORS**

**Land area** (thou m²)  
Total: Total surface area comprising land area and inland waters.  
Agricultural area: Usually the area of agriculture, including land used temporarily or permanently for crops, pastures, market gardens, orchards, and for livestock.  

**GNP per capita (US$)**:  

**Health and Nutrition**  
Population per physician: Population divided by number of practicing physicians qualified from a medical school at university level.

**Population per nurse:** Population divided by number of practicing male and female nurse graduates, "trained" or "certified" success and auxiliary personnel with training or experience.

**Population per hospital bed: Population divided by number of hospital beds available in public and private general and specialized hospital and rehabilitation centers; excludes nursing homes and establishments for statistical and preventive care.

**Vital statistics**  
**Infant mortality rate (per thousand):** Annual deaths per thousand infants under one year of age, usually five-year averages ending in 1960, 1970, and 1975 for most recent estimates.

**Life span at birth:** Average number of years of life remaining at birth; usually five-year averages ending in 1960, 1970, and 1975 for developing countries.

**Child survival rate:** Average number of live births a woman will bear in her normal reproductive period if she experiences present age-specific fertility rates; usually five-year averages ending in 1960, 1970, and 1975 for developing countries.

**Vital statistics (a):**  
Crude birth rate per thousand, average: Annual live births per thousand of mid-year population; ten-year arithmetic averages ending in 1960 and 1970, and five-year averages ending in 1975 for most recent estimates.

**Crude death rate per thousand, average:** Annual deaths per thousand of mid-year population; ten-year arithmetic averages ending in 1960 and 1970 and five-year average ending in 1975 for most recent estimates.

**Infant mortality rate (per thousand):** Annual deaths of infants under one year of age per thousand live births.

**Life expectancy at birth:** Average number of years of life remaining at birth, usually five-year averages ending in 1960, 1970 and 1975 for developing countries.

**GNP per capita (US$):**  
Computations from domestic production, imports less exports, and changes in stock; net supplies of goods and services used in food production and services in distribution; requirements were estimated by PAB based on physiological needs for normal activity and health considering environmental temperatures, body weights, age, and sex distributions of population, and allowing 10% for waste at household level.

**Birth rate (per thousand):** Annual deaths per thousand in age group 0-14 years, in children in this age group; suggested as an indicator of overcrowdedness.

**Education**  
**Primary enrollment rates:** Primary school — Enrollment of all ages as percentages of primary school-age population; includes children aged 6-11 years but adjusted for different lengths of primary education; for countries with universal education, enrollment may exceed 100% since some pupils are below or above the official school ages.  
**Secondary enrollment rates:** Secondary school — Computations as above; secondary education requires at least five years of approved primary instruction; for countries with a secondary level of education, the adjusted enrollment rates may exceed 100% since some pupils are below or above the official school ages.  
Years of schooling provided (first and second levels). Total years of schooling at secondary level, vocational instruction may be partially or completely excluded.

**Vocational enrollment rate:** Vocational institutions include technical, industrial or other programs which operate independently or as departments of secondary institutions.

**Urban literacy rate (est.):** Literate adults (able to read and write) as percentage of total adult population aged 15 years and over.

**Housing**  
**Persons per room (urban):** Average number of persons per room in occupied conventional dwellings in urban areas; dwellings exclude non-permanent structures and unoccupied parts.

**Occupied dwellings without piped water (§):** Occupied conventional dwellings in urban and rural areas without inside or outside piped water facilities as percentage of all occupied dwellings.

**Access to electricity (§ of all dwellings):** Conventional dwellings with electricity in living quarters as percent of total dwellings in urban and rural areas.

**Rural dwellings connected to electricity:** As computed as above for rural dwellings only.

**Consumption**  
**Birth rates:** Birth rates (per thousand) — All types of receivers for radio broadcast to general public per thousand of population; excludes unlicensed receivers in countries and in years when registration of radio sets was in effect; data for recent years may not be comparable since most countries liberalized licensing.

**Passenger cars (per thousand):** Passengers which motor cars existing in less than 8 persons; excludes motorcycles, bicycles and auxiliary vehicles.

**Electricity: (kWh per cap) — Annual consumption of industrial, commercial, public and private electricity in kilowatt hours per capita, generally based on production data, without allowance for losses in grids but allowing for imports and exports of electricity.

**Bicycles (kty per cap) — Per capita annual consumption of bicycles estimated from domestic production plus net imports of new bikes.**
GROSS NATIONAL PRODUCT IN 1975/76

<table>
<thead>
<tr>
<th></th>
<th>US$ Min.</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>GNP at Market Prices</td>
<td>1,630</td>
<td>100</td>
</tr>
<tr>
<td>Gross Domestic Investment</td>
<td>260</td>
<td>16</td>
</tr>
<tr>
<td>Gross National Saving</td>
<td>390</td>
<td>24</td>
</tr>
<tr>
<td>Current Account Balance</td>
<td>130</td>
<td>8</td>
</tr>
<tr>
<td>Exports of Goods, NFS</td>
<td>65</td>
<td>4</td>
</tr>
<tr>
<td>Imports of Goods, NFS</td>
<td>414</td>
<td>25</td>
</tr>
</tbody>
</table>

OUTPUT, LABOR FORCE AND PRODUCTIVITY IN 1975/76

<table>
<thead>
<tr>
<th></th>
<th>Value Added</th>
<th>Labor Force</th>
<th>V. A. Per Worker</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(US$Min)</td>
<td>Thous.</td>
<td>US $</td>
</tr>
<tr>
<td></td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Agriculture</td>
<td>512</td>
<td>45</td>
<td>800</td>
</tr>
<tr>
<td>Industry</td>
<td>117</td>
<td>10</td>
<td>90</td>
</tr>
<tr>
<td>Services</td>
<td>522</td>
<td>45</td>
<td>200</td>
</tr>
<tr>
<td>Total/Average</td>
<td>1,151</td>
<td>100</td>
<td>1,090</td>
</tr>
</tbody>
</table>

GOVERNMENT FINANCE

<table>
<thead>
<tr>
<th></th>
<th>1972/73</th>
<th>1973/74</th>
<th>1974/75</th>
<th>1975/76</th>
<th>% of GNP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Revenue</td>
<td>199</td>
<td>277</td>
<td>381</td>
<td>565</td>
<td>8</td>
</tr>
<tr>
<td>Current Expenditure</td>
<td>272</td>
<td>323</td>
<td>472</td>
<td>604</td>
<td>8</td>
</tr>
<tr>
<td>Current Deficit</td>
<td>-73</td>
<td>-46</td>
<td>-91</td>
<td>-39</td>
<td>-1</td>
</tr>
<tr>
<td>Development Expenditures</td>
<td>57</td>
<td>139</td>
<td>185</td>
<td>340</td>
<td>5</td>
</tr>
<tr>
<td>External Assistance (net)</td>
<td>117</td>
<td>239</td>
<td>536</td>
<td>609</td>
<td>8</td>
</tr>
</tbody>
</table>

MONEY, CREDIT AND PRICES

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>June 30</td>
<td>June 30</td>
<td>June 30</td>
<td>June 30</td>
<td>June 30</td>
<td>June 30</td>
</tr>
<tr>
<td>Money Supply</td>
<td>348</td>
<td>489</td>
<td>640</td>
<td>964</td>
<td>2,028</td>
<td>3,516</td>
</tr>
<tr>
<td>Bank Credit to Gov't. Sector</td>
<td>103</td>
<td>102</td>
<td>70</td>
<td>-162</td>
<td>-407</td>
<td>-939</td>
</tr>
<tr>
<td>Bank Credit to Non-Gov't Sector</td>
<td>108</td>
<td>169</td>
<td>238</td>
<td>394</td>
<td>566</td>
<td>1,474</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>June 30</th>
<th>June 30</th>
<th>June 30</th>
<th>June 30</th>
<th>June 30</th>
<th>June 30</th>
</tr>
</thead>
<tbody>
<tr>
<td>Money Supply as % of GNP</td>
<td>15</td>
<td>16</td>
<td>17</td>
<td>18</td>
<td>28</td>
<td>32</td>
</tr>
<tr>
<td>Consumer Price Index</td>
<td>..</td>
<td>154</td>
<td>203</td>
<td>237</td>
<td>329</td>
<td></td>
</tr>
</tbody>
</table>

Annual percentage increase:
|                           | June 30  | June 30  | June 30  | June 30  | June 30  | June 30  |
| Money Supply              | 29       | 41       | 31       | 51       | 110      | 73       |
| Consumer Price Index      | ..       | ..       | ..       | 32       | 17       | 39       |

NOTE: All conversions to dollars in this table are at the average exchange rate prevailing during the period covered.

1/ For Sana'a only (fiscal years)
2/ During fiscal year ending June 30.
.. Not available
## BALANCE OF PAYMENTS

<table>
<thead>
<tr>
<th></th>
<th>1973/74</th>
<th>1974/75</th>
<th>1975/76</th>
<th>1976/77</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports of Goods, fob</td>
<td>14</td>
<td>13</td>
<td>12</td>
<td>19</td>
</tr>
<tr>
<td>Imports of Goods, cif</td>
<td>194</td>
<td>258</td>
<td>382</td>
<td>730</td>
</tr>
<tr>
<td>Trade Deficit</td>
<td>-180</td>
<td>-245</td>
<td>-370</td>
<td>-711</td>
</tr>
<tr>
<td>Non Factor Services, net</td>
<td>14</td>
<td>17</td>
<td>21</td>
<td>-3</td>
</tr>
<tr>
<td>Factor Income, net</td>
<td>117</td>
<td>203</td>
<td>479</td>
<td>889</td>
</tr>
<tr>
<td>Workers' Remittances, net</td>
<td>112</td>
<td>191</td>
<td>457</td>
<td>842</td>
</tr>
<tr>
<td>Investment Income, net</td>
<td>5</td>
<td>12</td>
<td>22</td>
<td>47</td>
</tr>
<tr>
<td>Balance on Current Account</td>
<td>-49</td>
<td>-25</td>
<td>130</td>
<td>175</td>
</tr>
<tr>
<td>M &amp; LT Capital, net</td>
<td>62</td>
<td>126</td>
<td>158</td>
<td>146</td>
</tr>
<tr>
<td>Official Grants</td>
<td>33</td>
<td>93</td>
<td>114</td>
<td>104</td>
</tr>
<tr>
<td>Official Loans, net</td>
<td>29</td>
<td>33</td>
<td>44</td>
<td>42</td>
</tr>
<tr>
<td>Disbursements</td>
<td>32</td>
<td>37</td>
<td>47</td>
<td>46</td>
</tr>
<tr>
<td>Repayments</td>
<td>-3</td>
<td>-4</td>
<td>-3</td>
<td>-4</td>
</tr>
<tr>
<td>Other Capital, net</td>
<td>11</td>
<td>-3</td>
<td>-2</td>
<td>126</td>
</tr>
<tr>
<td>Increase in Reserves (-)</td>
<td>-24</td>
<td>-98</td>
<td>-286</td>
<td>-447</td>
</tr>
<tr>
<td>Gross Reserves (end fiscal year)</td>
<td>89</td>
<td>187</td>
<td>473</td>
<td>920</td>
</tr>
</tbody>
</table>

### EXTERNAL DEBT, JUNE 30, 1977

<table>
<thead>
<tr>
<th>Description</th>
<th>US $ Mln.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total outstanding</td>
<td>529</td>
</tr>
<tr>
<td>of which disbursed</td>
<td>292</td>
</tr>
</tbody>
</table>

### MERCHANDISE EXPORTS

(AVERAGE 1973/74-1975/76)

<table>
<thead>
<tr>
<th>Description</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cotton and Cotton Products</td>
<td>59</td>
</tr>
<tr>
<td>Coffee</td>
<td>12</td>
</tr>
<tr>
<td>Hides &amp; Skins</td>
<td>12</td>
</tr>
<tr>
<td>All other commodities</td>
<td>17</td>
</tr>
</tbody>
</table>

### DEBT SERVICE RATIO

(FOR 1976/77)

<table>
<thead>
<tr>
<th>Description</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>100</td>
</tr>
</tbody>
</table>

### RATE OF EXCHANGE

**Through Feb. 1973**

- US $ 1.00 = YR 5.00
- YR 1.00 = US $0.20

**Since Feb. 1973**

- US $ 1.00 = YR 4.50
- YR 1.00 = US $0.22

---

1/ Includes errors and omissions.
2/ Central Bank holdings.
3/ Includes workers' remittances

May 24, 1978
### A. Statement of IDA Credits

(As of April 30, 1978 - $ Million)

<table>
<thead>
<tr>
<th>Credit Number</th>
<th>Year</th>
<th>Borrower</th>
<th>Purpose</th>
<th>Amount (less cancellations)</th>
<th>IDA</th>
<th>Undisbursed</th>
</tr>
</thead>
<tbody>
<tr>
<td>315</td>
<td>1972</td>
<td>Yemen Arab Republic</td>
<td>Highways</td>
<td>7.7</td>
<td>0.1</td>
<td></td>
</tr>
<tr>
<td>376</td>
<td>1973</td>
<td>Yemen Arab Republic</td>
<td>Tihama Agriculture</td>
<td>21.2 /2</td>
<td>5.8</td>
<td></td>
</tr>
<tr>
<td>421</td>
<td>1973</td>
<td>Yemen Arab Republic</td>
<td>Education</td>
<td>11.0</td>
<td>3.9</td>
<td></td>
</tr>
<tr>
<td>464</td>
<td>1974</td>
<td>Yemen Arab Republic</td>
<td>Water Supply</td>
<td>6.3</td>
<td>2.0</td>
<td></td>
</tr>
<tr>
<td>465</td>
<td>1975</td>
<td>Yemen Arab Republic</td>
<td>Industrial Estate</td>
<td>2.3</td>
<td>1.2</td>
<td></td>
</tr>
<tr>
<td>545</td>
<td>1975</td>
<td>Yemen Arab Republic</td>
<td>Rural Development</td>
<td>10.0</td>
<td>7.6</td>
<td></td>
</tr>
<tr>
<td>558</td>
<td>1975</td>
<td>Yemen Arab Republic</td>
<td>Highways</td>
<td>9.0</td>
<td>0.9</td>
<td></td>
</tr>
<tr>
<td>559</td>
<td>1975</td>
<td>Yemen Arab Republic</td>
<td>Water Supply and Sewerage</td>
<td>8.1</td>
<td>5.4</td>
<td></td>
</tr>
<tr>
<td>611</td>
<td>1976</td>
<td>Yemen Arab Republic</td>
<td>Education</td>
<td>8.0</td>
<td>6.2</td>
<td></td>
</tr>
<tr>
<td>636</td>
<td>1976</td>
<td>Yemen Arab Republic</td>
<td>Grain Storage and</td>
<td>5.2</td>
<td>4.3</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Processing</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>662</td>
<td>1976</td>
<td>Yemen Arab Republic</td>
<td>Livestock Credit</td>
<td>5.0</td>
<td>3.9</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>and Processing</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>670</td>
<td>1977</td>
<td>Yemen Arab Republic</td>
<td>Water Supply and</td>
<td>10.0</td>
<td>9.9</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Sewerage</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>714</td>
<td>1977</td>
<td>Yemen Arab Republic</td>
<td>Port Development</td>
<td>6.0</td>
<td>6.0</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Total</td>
<td>109.8</td>
<td>57.2</td>
</tr>
</tbody>
</table>

Of which has been repaid

- Total now held by IDA 109.8

Total undisbursed 57.2

/1 Two credits of $11.5 million for a Third Highway Project and $10.5 million for a Tihama Development Project II were approved by the Executive Directors on April 27 and May 18, 1978, respectively.

/2 Including supplementary credit of $10.3 million of April 9, 1976.

### B. Statement of IFC Investments

(As of April 30, 1978)

See para. 34.
C. Other Bank Group Activities

A Bank grant of $200,000, equivalent, was approved by the Executive Directors in July 1971, to help finance, jointly with the Kuwait Fund for Arab Economic Development, a team of planning and economic advisors. The team of five advisors has helped establish the Central Planning Organization (CPO) which is responsible for preparing a development program, devising general economic policies, identifying and preparing investments projects, and coordinating external aid. The Executive Directors approved on September 11, 1973, a second Bank grant of $200,000 equivalent to make possible the continuation of the services of the planning team. The Kuwait Fund joined with a grant of about $300,000. In January 1976, the Bank approved a third grant of $120,000 to provide for the continuation of the services of a planning team including those of a management/public administration expert. The Kuwait Fund also joined with a grant of about $425,000.

D. Projects in Execution

Cr. No. 315-YAR - Highway; $7.7 million Credit of June 26, 1972; Effectiveness Date: January 15, 1973; Closing Date: September 30, 1978.

After long initial delays in the implementation of the project arising from the lack of satisfactory response to construction bidding, the Borrower has arranged for force account execution of the 69 km Taiz-Turba road construction; the work started in March 1975 and is now progressing satisfactorily. New consultants for the technical assistance component of the project have been appointed. Most of the road and engineering equipment included in the project has been delivered. The road construction is expected to be completed in the latter part of 1978.

Cr. No. 376-YAR - Tihama Agriculture; $10.9 million Credit of May 2, 1973; Effectiveness Date: September 4, 1973; and $10.3 million Supplementary Credit of April 9, 1976; Effectiveness Date: June 18, 1976; Closing Date: June 30, 1979.

The Tihama Development Authority, responsible for project execution, was set up and two advisors (technical and financial) were appointed by end of 1973. Project consultants, appointed since April 1973, have completed specification drawings of all the required contracts. Nine contracts for preliminary works including camps, access and field roads and extension offices were awarded to local contractors. Six of them have already been completed and one nearing completion. Three major contracts, one each for the construction of diversion weir, canals and the regulating gates, were put to international tendering. Construction work on the diversion weirs has been completed, the regulating gates are being installed and the canal will be completed by October 1978. The Agricultural Credit Fund (ACF) was established towards the end of 1974. The Credit Manager and the Field Manager for the ACF have been appointed. ACF's operations in the project are highly satisfactory. The total cost of the Project was revised to $40.8 million compared with $17.5 million at the time of initial appraisal. At the Government's request the Association and the Kuwait Fund agreed to provide supplemental financing. The
Kuwait Fund approved in December 1975 a supplementary loan of KD 2.8 million and the Association approved on March 30, 1976 a $10.3 million supplementary credit for the project. The reappraisal estimate of December 1978 for project completion is expected to be met.

Cr. No. 421-YAR - Education Project; $11 million Credit of July 19, 1973; Effectiveness Date: April 10, 1974; Closing Date: December 31, 1979.

Following initial delays in recruiting staff for the Project Unit and the UNDP/UNESCO Task Force, project implementation is now about 24 months behind appraisal estimates. All site problems have been resolved. Construction is proceeding satisfactorily, with 80 percent of institutions anticipated to be completed by October 1978. With the exception of one school, all equipment and furniture contracts have been awarded and delivery has commenced. The most critical aspects of the project are the difficulty to recruit expatriate and trained Yemeni staff for project institutions and the absence of funds to finance technical assistance and fellowship costs formerly anticipated from UNDP. The UNESCO Task Force is being phased out by December 1978, but refinancing of some posts in critical areas would be necessary. The Association and the Government are pursuing discussions with some bilateral agencies in order to rectify this situation.

Cr. No. 464-YAR - Sana'a Water Supply Project; $6.25 million Credit of March 4, 1974; Effectiveness Date: July 15, 1974; Closing Date: September 28, 1979.

Civil works are virtually completed with only reservoir testing and final site work remaining. The drilling and well construction program has been completed and pipe laying is progressing.

Cr. No. 465-YAR - Industrial Estate Project; $2.3 million Credit of March 4, 1974; Effectiveness Date: November 27, 1974; Closing Date: December 31, 1980.

Tenders for civil works were received in the last week of October 1975 as scheduled. The lowest bid was for more than double the appraisal estimate which had been prepared in early 1973. This high cost is due to the unexpected increase in building costs that has taken place since project appraisal. In the light of this cost increase and at the Government's request, the Association agreed to retain the highest priority items in the project. The Development Credit Agreement was amended accordingly. Construction works started in February 1976. Two of the three buildings are completed and the third is expected to be completed by end March 1978. Many entrepreneurs have already signed lease agreements with the Industrial Estate Development Authority and are currently using the facilities. Other parties have showed interest in either renting factory space or developed plots.
Cr. No. 545-YAR - Southern Uplands Rural Development Project; $10.0 million
Credit of May 13, 1975; Effectiveness Date: January 27, 1976; Closing Date: March 31, 1982.

After a slow start in project implementation, the project encountered management, staffing and organizational problems. Since the fall of 1976 progress has been encouraging. Project Management has improved and most of the staff positions have been filled. Agricultural extension, veterinary and credit activities are progressing very satisfactorily. Problems of cost escalation will be met by reducing the number of loans that can be made to farmers. Well drilling and the village water supply component has commenced. A contract has been entered into with the Ministry of Public Works for the rural road component. The ACF component is being implemented very satisfactorily.

Cr. 558-YAR - Second Highway Project; $9.0 million
Credit of June 20, 1975; Effectiveness Date: January 27, 1976; Closing Date: December 31, 1978.

The construction of the Taiz-Km 64 road was completed in November 1976, and the 2-1/2 years technical assistance consultancy to the Highway Authority is being continued under the Third Highway Project.

Cr. No. 559-YAR - Hodeida Water Supply and Sewerage Project; $8.1 million
Credit of June 20, 1975; Effectiveness Date: December 29, 1975; Closing Date: December 31, 1980.

Completion of the well drilling program has allowed for the implementation of remedial works and associated construction in the well fields. The draft tariff study report has been submitted by the consultants. Government's prompt decision to proceed with a reduced scope of works has permitted the consultants to finalize tender documents for civil works, mechanical/electrical and pipe installation.

Cr. No. 611-YAR - Second Education Project; $8.0 million
Credit of February 13, 1976; Effectiveness Date: May 10, 1976; Closing Date: December 31, 1980.

Commendable progress has been made in the physical implementation of this project which is proceeding on schedule. Completion of construction is expected by June 1979. The Project Unit staff is supervising all construction. Preparation of bid documents for furniture and equipment for the eight project institutions has been completed and bidding is anticipated shortly. Following the establishment of the National Basic Training Board, an initial deposit of $50,000 has been made to the Basic Training Fund. Disbursements from the Credit are proceeding satisfactorily. Severe constraints have been placed on achieving the educational objectives of the project due to lack of progress in financing and recruiting expatriate and Yemeni staff for the project institutions. The Government is aware of this serious situation and discussions with bilateral agencies are being held.
Cr. No. 636-YAR - Grain Storage and Processing Project; $5.2 million Credit of June 7, 1976; Effectiveness Date: October 26, 1976; Closing Date: December 31, 1981.

The expatriate project manager and his local counterpart, had been appointed prior to negotiations. Contract negotiations with the engineering firm Oscar Faber have been completed and the firm has commenced work on the project. The sites for the silo, the Government bakeries and the warehouses have been acquired and properly demarcated and the preparation of the silo site at Hodeidah has commenced. Four Yemenis are undergoing undergraduate training in the USA and two are presently undergoing non-graduate training in the UK in financial management. Bids for the silo, warehouses and bakeries are being evaluated. Project implementation remains on schedule. A silo superintendent and an accountant (both local) have been appointed.

Cr. No. 662-YAR - Livestock Credit and Processing Project; $5.0 million Credit of November 15, 1976; Effectiveness Date: August 22, 1977; Closing Date: June 30, 1984.

The project manager and practically all expatriate staff are in the field together with the Co-Manager and some counterparts. Cost escalation was resolved in a meeting of co-financiers in London in October 1977 by reduction and/or reorientation of some components without changing the project concept. Government sites for the two dairy farms, two slaughterhouses and the fattening farm have been secured and quotations received for housing, equipment and well-drilling. The planning phase for construction of the project components is about complete and it is expected that the project will now move into the construction phase.

Cr. No. 670-YAR - Sana'a Second Water Supply and Sewerage Project; $10.0 million Credit of January 14, 1977; Effectiveness Date: May 16, 1977; Closing Date: June 30, 1982.

Contracts have been awarded for the well drilling program and for the supply of materials for the water system house connections and sewer appurtenances. The consultants have completed the project reports for water supply and sewerage as well as for the laboratory installation. The draft tender documents for water transmission and distribution mains are under review. Preparation of the water supply and sewerage feasibility study for the towns of Ibb and Dhamar was delayed due to the absence of base mapping which is now being provided by the consultants. Completion of the draft study, however, is still scheduled for September 1978. Award of the contract for the construction industry study was delayed because the Government requested additional proposals from consultant firms. These are now under review.
Cr. No. 714-YAR - Port Development Project; $6.0 million Credit of June 8, 1977; Effectiveness Date: March 17, 1978; Closing Date: March 31, 1982

The Port Engineer and the engineering consultants have been appointed. The engineering and soil studies on berth No. 5 have started and are expected to be completed in the latter part of 1978.
YEMEN ARAB REPUBLIC

TEXTILE REHABILITATION PROJECT

Supplementary Data Sheet

Section I: Timetable of Key Events

(a) Time taken by YAR to prepare the project: 16 months
May 1976-September 1977

(b) The agency which has prepared the project: Yemen Textiles Corporation assisted by Consultants and IDA

(c) Date of first presentation to IDA: February 1976

(d) Date of first IDA mission to consider the project: May 1976

(e) Date of departure of appraisal mission: December 1977

(f) Date of completion of negotiations: May 18, 1978

(g) Planned date of effectiveness: November 1, 1978

Section II: Special Implementation Action by IDA: None.

Section III: Special Conditions

A. Conditions of effectiveness of the IDA Credit include:

(i) the execution of a subsidiary loan agreement between the Government and the Corporation to govern the onlending terms and conditions of the proceeds of the IDA Credit (paras. 61 and 72);

(ii) the signing of loan agreement between the Government and the OPEC Fund for an amount of $1.5 million (paras. 60 and 72); and

(iii) the signing of a loan agreement between the Government and the Corporation for an amount of $8.5 million (paras. 61 and 72).

B. Measures agreed upon include:

1. that the Government will:
(i) not implement in the public sector any project in the textile industry involving investment of over $1 million beyond the one proposed in this report without prior consultation with IDA (para. 47); and

(ii) employ by October 31, 1978, consultants on terms and conditions satisfactory to IDA to carry out a study of the social, economic, cultural and educational aspects of increased employment of women in the textile industry and of possible measures to increase their employment (para. 45).

2. that the Corporation will:

   (i) employ qualified consultants on terms and conditions satisfactory to IDA (paras. 53 and 62);

   (ii) submit, by not later than June 30, 1979, a training program acceptable to IDA, and carry out the program according to a mutually agreed time schedule (para. 53);

   (iii) submit by not later than June 30, 1980, to IDA for consultation the consultants' study of the exact scope, timing and viability of further modernizing the Sana'a mill (para. 52);

   (iv) submit by not later than June 30, 1979 to IDA for discussion, the consultants' study of marketing and sales policies and introduce in light of the study's recommendations such changes in these policies as shall be agreed with the Association (para. 58); and

   (v) not undertake any project or expansion other than the one proposed involving an expenditure in excess of $1.0 million until five years from project completion, without prior presentation to IDA of evidence satisfactory to IDA that such project or expansion would not adversely affect the Corporation's managerial and financial position (para. 64).