Statement by MICHAEL MAREK
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YEMEN: COUNTRY ASSISTANCE STRATEGY

1. I welcome the discussion of the Yemen CAS. The CAS builds upon the important findings from the OED CAR, especially with regard to selectivity, gender, capacity building, water sustainability and governance. It also has benefitted from extensive consultations conducted over a one-year period. Involving a broad range of interested parties should further enhance popular support and effectiveness of the CAS. I also welcome the CAS matrix which covers the range of development challenges in Yemen and notes which areas donors are addressing.

2. The incorporation of gender into the strategy is a good first step. However, I believe that we need to begin to mainstream gender issues in countries where gender inequities are a significant development issue. As you will recall from our statement on the OED CAR, gender issues must be a focal point in all Bank operations. Improving girls’ enrollment in school and maternal and child health indicators are obviously important, but the more challenging and meaningful (in terms of economic integration) gender issues in Yemen are those dealing with legal and judicial reform, microcredit, land titling and ownership, and public works projects. How will Bank operations (lending and non-lending) aim to mainstream gender equality?

3. I am pleased that the work program was built upon an earlier Public Expenditure Review (PER), especially given the critical importance of achieving gains in public sector management and accountability. The programmed annual public expenditure review and monitoring built into the CAS is essential. However, the CAS documentation says it was built on a prior PER, yet, there is no substantive information in the CAS on PER findings and how those findings will be implemented. We would appreciate more detailed information on current composition of public expenditures, alternative spending patterns which will be pursued throughout the CAS period, status of accountability and fiscal control mechanisms (especially audit and reporting process of all expenditures, including military spending), and
the status of the national procurement function. Similarly, one of the base-case triggers is "adherence to PER agreed priorities"—What are those priorities?

4. While we are firm supporters of the use of non-lending services to ground investments, this CAS seems overloaded with ESW which is not necessarily targeted to the areas of selectivity promoted in the CAS base case, e.g. fisheries sector strategy, urban management strategy, cooperatives development, power sector restructuring, institutions for export promotion, oil and gas exploration, cultural heritage strategy. We encourage the Bank to be as selective with ESW as it has been with the proposed lending program. Non-lending services should be strategically focused and generally consistent with the lending program. We are concerned that the list of proposed non-lending services lacks this focus.

5. Bank staff have presented a frank and accurate analysis of the situation in Yemen and the Bank's effectiveness in past interventions. The pre-1994 record was disappointing due to (a) lack of Bank focus, (b) poor country commitment, (c) social and political uncertainty, and (d) inadequate governance and institutional structure essential for implementing the programs. However, the situation has since improved markedly.

-- Despite its limited resource endowment, the high costs of the civil war, and economic collapse, the government has managed a dramatic economic turnaround and has largely met the tough measures of its IMF stabilization and reform program.

-- Yemen has made progress in establishing an institutional framework which enables project implementation.

6. While noting the impressive strides authorities have taken under its reform program, our predominant concern is whether adequate capacity—human, administrative, institutional—exists to effectively manage the proposed base case lending scenario, a quadrupling of assistance from the previous CAS. While many implementation and disbursement problems identified in the latest portfolio performance review have been improved, improvements were achieved by strengthening the resident mission and the PIU which, as we saw in the OED CAR, do not address the larger issue of sustainability of institutional reforms in the government. The lending program, even in the base case, must strike a more measured balance between rewarding the GOY for impressive reform measures taken to date and implementation capacity constraints to ensure that development resources are used effectively.

7. Triggers to the high-case, which would result in lending of over $200 million/yr., are not especially ambitious and would raise already existing concerns on institutional capacity to effectively and sustainably manage these borrowings. The privatization program especially should be something pursued under the base-case, given the amounts of money programmed.

8. Given the weaknesses in public sector management, fiscal controls, corruption and accountability, what is the Bank's rationale for front-loaded, one-tranche disbursement procedures under the potentially three planned PSMACs?