Board Meeting of November 4, 1997
Statement by Khalid Alyahya

Yemen: Country Assistance Strategy - Progress Report,
Financial Sector Adjustment Credit,
Southern Governorate Rural Development Project

It is very encouraging that the initial phase of reforms in Yemen has been implemented with great success. As the documents show, these measures have stabilized the economy, restored business confidence, and laid down the foundation for increased investment and growth. More recently, the authorities have initiated commendable efforts to broaden and deepen structural reforms. They have demonstrated a clear commitment to continued sound macroeconomic management, and they deserve increased support from the Bank Group.

The envisaged Bank assistance to Yemen in the coming years, as presented in the Progress Report, adequately addresses developmental challenges in the areas of structural reform, human development, and social protection.

In the area of structural reform, we welcome the two-stage approach as applied to the civil service and public administration. Assistance is first provided to help formulate a program that enjoys wide support and ownership. This will be followed in the second stage by the implementation of an IDA supported adjustment operation. We appreciate this gradual approach to reform, which takes into consideration the limited local capacity to formulate and implement structural policy changes.

Given the pressing needs in the health and education sectors, I applaud the authorities for their commitment to significantly increase budgetary outlays for these services. Placing emphasis in the short term on improving operations and maintenance would enhance service provision in these vital sectors. Still, the needs remain very large. Here, I encourage Bank and IFC staff to join efforts in exploring the potential for mobilizing private resources to supply basic social services in Yemen. Perhaps, IFC’s recent experience in the social sectors in Pakistan could provide some guidance in Yemen.

In the area of social protection, significant efforts are made within the context of the ongoing Public Works project, the Vocational Training project, and the Social Fund for Development. These efforts
are helping create jobs for unskilled workers, and preparing them for opportunities in the labor market. Such projects have a clear potential for contributing to the improvement of the living conditions of the poor. In the same vein, the proposed Southern Governorates Rural Development project would provide assistance for the creation of labor-intensive agricultural and other productive activities, on a sustainable basis, in poor rural areas.

As for private sector participation in economic activity, increased assistance from the Bank Group is warranted. Significant growth in non-oil activities, better investment climate, and an improved external financial situation, all present new opportunities for private sector participation. IFC could move faster to try and capture available investment opportunities, and MIGA could provide additional assistance in investment promotion activities.

To further promote sustained growth in the economy, there is a need to modernize the banking sector and develop its capacity to intermedate resources. I thus support the proposed Financial Sector Adjustment Credit which would help, among other things, in improving compliance with international standards of capital adequacy and loan loss provisioning. This would improve the management of the banking sector and raise the confidence in it. As noted in the project document, the main risk facing the reforms in this sector is the limited local expertise and implementation capacity.

To mitigate this risk, the reform program of the financial sector is properly sequenced to facilitate an effective gradual implementation of the reform process which takes into account the limited local capacity. Institutional Improvements constitute a prominent component of the program. In addition, measures to be taken before Board presentation of the project, and before the second tranche release, are clear and specific.

Finally, I commend staff and management of the MENA region on the quality of the documents. The content reflects deep understanding of the changing circumstances in Yemen, an understanding which promotes continued fruitful cooperation between the Bank and Yemen.