Statement by Valeriano F. García
Date of Meeting: May 25, 1999

Yemen - CAS

We welcome the discussion of this CAS for Yemen. We appreciate the staff work in setting up a conceptual and well-focussed analysis. It is important to remark for the case of Yemen the role of the World Bank as a *knowledge bank*; non-lending services will cover strategic assistance in important areas.

Since 1995, the Government of Yemen has addressed many of its basic problems. It has made progress in the context of the ESAF/EFF programs and progress in public management reform. However, the macroeconomic situation is weak and institutional capacity inadequate. These facts open the road for a challenging agenda.

We agree with the strategy and, we would like to emphasize the following:

- The budget deficit is large and difficult to reign in and there are serious problems of governance. Both features threaten to undermine recent achievements in external balances, the exchange rate, inflation and interest rates.
- We encourage the government to follow the Recovery Program. This program has well-structured measures to deal with economic and social constraints. We expect these reforms to help the government and the people to take advantage of Yemen's natural endowments to build an efficient economy.
- The improvement of public administration should be an important goal. There are no clear references in the CAS to the dimension of the public sector, the skill level of its employees and the reliability and effectiveness of its managerial staff. This includes the capacity to improve the quality of public expenditure.

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• It is indispensable to ensure property rights through the development of institutions that facilitates the development of a market economy. This is a necessary step to provide a legal framework to observe contracts. It becomes the starting point of any market economy. We welcome the improvement in portfolio achievements since 1995, and the Resident Mission activities and involvement in portfolio management. The partnership and coordination among donors are encouraging and we hope this experience will prove a good example for other countries in need.

• For a country that heavily depends upon one non-renewable commodity, such as oil, the major challenge for Yemen is to stabilize export receipts. For example, to use hedging mechanisms or to setting up an oil-stabilization fund might become a reasonable strategy.