

# International Financial Institutions and Yemen

## A Country Study



October 2007

## **What is the purpose of this paper?**

This paper aims to provide you with information about each of the International Financial Institutions (IFIs) involved in Yemen and to help you understand how you might influence their activities. IFIs are public investment and development institutions owned by their member governments that provide funding, technical assistance and policy advice, research and other non-financial support to governments in “developing” and “transition” countries. Many IFIs also provide financing to companies investing in the developing world. The most well-known IFIs are the World Bank and International Monetary Fund (IMF).

In the following pages, this document analyzes trends in IFI activities in Yemen and poses questions and concerns that might be useful for you to think about, discuss with your colleagues and your constituency, or address in your future development programs or advocacy campaigns.

The paper briefly presents background information about the economic situation in Yemen and some of the major development challenges that it faces. It then provides an overview of each of the IFIs active in Yemen, and includes key contact information and links to additional resources.

## **Why care about IFIs in Yemen?**

**Everyone has the right to take part in the development decisions that affect his or her life, livelihood, and the environment.** The international financial institutions that are operating in Yemen may be affecting you directly through the projects and policies they finance, or indirectly through their influence on governments, investors, and the development discourse in general. Whether you agree or disagree with them, the policies they promote and the programs they finance may have direct effects on your daily life.

In Yemen, IFIs influence the price of basic goods and services, the number of government employees, wage increases, taxes, banking systems, and the environment, to cite only a few examples. Consequently, they may represent appropriate targets of your

advocacy efforts, as institutions whose actions affect you and your constituencies.

- **IFIs may be good advocacy targets.** IFIs wield significant influence over actors in Yemen, including the government, but also donors, development agencies and investors. Working on IFIs and influencing their operations in Yemen may help you achieve some of the changes you and your organization seek at a local, national or international level.
- **IFIs may be important sources of information.** Whether or not you agree with the content of IFI documents and the policy recommendations they make, the information generated by IFIs can often be useful to civil society actors. It may be difficult to access similar data from other sources. And because most IFIs have obligations to provide public access to information, civil society actors have grounds on which to assert their right to documentation about development projects and policies supported by international institutions.
- **IFIs can be “lightning rods” for international attention.** Because governments, private companies, civil society and media around the world pay attention to the activities of global institutions like the World Bank or IMF, exposing the link between these institutions’ activities and the issue(s) on which you work may help to attract more attention than you might otherwise receive. Also, addressing the IFI dimension of an issue that concerns you may help you form alliances with other organizations working on IFIs internationally. This access to transnational civil society advocacy networks can help amplify your message and strengthen your campaign.

### **What points of leverage does civil society have over IFIs?**

Over the years, civil society groups have found various ways to influence the programs and policies of the international financial institutions; some are official channels, others are not.

- **Country strategies.** One way to engage the institutions is through **participation in shaping their strategies for engagement in your country**, such as the World Bank’s

Country Assistance Strategy (CAS) [for more about the World Bank's CAS for Yemen, see page 7). However, IFIs are not always obligated to consult the public, nor do they routinely disclose draft strategy documents for input from civil society. Sometimes, even finalized strategies or other documents related to their operations are kept confidential.

- **Project-related consultations.** IFIs also generally require their clients, whether governments or private companies, to **consult with the communities that might be affected** by projects they finance. These consultations can provide opportunities for the public to influence how projects are designed and implemented, and what measures are taken to protect the interests and rights of the local population.
- **Safeguard policies.** Some IFIs have their own **social and environmental “safeguard policies”** that establish mandatory standards and procedures that they and their clients must follow when preparing and implementing projects they finance. Some IFIs also have internal accountability mechanisms through which **communities can complain** when those standards are violated.
- **Media.** One of the most important tools that civil society groups have to influence IFIs is **the media**. Because these institutions are sensitive to their **reputations**, highlighting concerns in the press can often help civil society achieve remedies or prevent future harm.

To learn more about these and **other tools that civil society groups can use** to influence IFIs, see the following publications from the Bank Information Center:

- [“IFIs and the Middle East & North Africa: A Primer for NGOs”](#)
- [“Tools for Activists: An Information and Advocacy Guide to the World Bank Group”](#)

This Yemen Country Study is also available in English at: [www.bicusa.org/ifisandyemen](http://www.bicusa.org/ifisandyemen).

Find out the latest news about the IFIs in Yemen on BIC's Yemen country page at: [www.bicusa.org/Yemen](http://www.bicusa.org/Yemen)

Also see BIC's latest [Yemen Project Update](#) for a list and description of proposed and active IFI projects.

To find out more about the international financial institutions in the Middle East & North Africa (MENA) region generally, visit BIC's MENA webpage at: [www.bicusa.org/mena](http://www.bicusa.org/mena).

## Introduction to the IFIs in Yemen

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### **Background**

Yemen is one of the least developed countries in the world according to the United Nations, and ranks 150<sup>th</sup> out of 177 countries on the 2006 UNDP Human Development Index.<sup>1</sup> Following are **some statistics about the economic situation in Yemen**:<sup>2</sup>

- **Gross Domestic Product (GDP) per capita:** US\$879 (2004).
- **Inflation:** 20.8% (2006).
- **Population:** 22.2 million, 46.3% under the age of 15 (2007).
- **Population growth rate:** 3.5% (estimate, 2007), and expected to double in the next 20 years.
- **Population below the poverty line (defined as US\$2/day):** 45.2% (2003).
- **Unemployment rate:** 35% (2003).

**Yemen receives financial assistance from many foreign governments and multilateral agencies.** Yemen is heavily dependent on foreign aid to finance its budget deficit and development projects. At a meeting held in London and chaired by the Yemeni Government and the World Bank in November 2006<sup>3</sup> and a subsequent gathering in June 2007, donors pledged nearly US\$5 billion in assistance to Yemen for the four-year period 2007-2010. Managing multiple and sometimes conflicting requirements imposed by different donors can pose problems when designing development programs and making spending decisions.

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<sup>1</sup> [Human Development Report 2006](#), UNDP.

<sup>2</sup> [World Factbook 2007 - Yemen](#).

<sup>3</sup> [Donors Pledge Commitment to Yemen's Development](#), World Bank, November 16, 2006

## **Major challenges facing Yemen**

The World Bank has identified the following as among the most pressing challenges that Yemen faces in reducing poverty and achieving sustainable development. <sup>4</sup>

- **High population growth.**
- **High unemployment.**
- **Diminishing crude oil reserves.** Oil revenues account for three-fourths of the Yemeni government's revenues.<sup>5</sup> But experts expect that oil could run out and Yemen could become a net oil importer by 2011.
- **Depletion of water resources.** Yemen has one of the lowest rates of per capita freshwater availability (150 m<sup>3</sup> per capita per annum) in the world. Groundwater is being depleted, and urban and rural water supply and sanitation coverage is not keeping pace with the growth of the population.
- **Food insecurity.** The country used to produce most of its grain requirements until the early 1970s, but by 1998, was producing only 26% of its needs. This may be due to a number of factors, including increasing demand from the country's growing population, diminishing water resources, and farmers' preference to plant qat (a popular leaf-based stimulant) over grain.

## **IFIs active in Yemen**

**The following IFIs are involved in Yemen:** The World Bank Group [including the International Development Association (IDA) and the International Finance Corporation (IFC)], the International Monetary Fund (IMF) and the Islamic Development Fund (IDB). Each is discussed in turn below.

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<sup>4</sup> [Yemen Country Brief](#), World Bank, August 2006.

<sup>5</sup> [Yemen 2007 Article IV Consultation](#), International Monetary Fund, September 2007.

# The World Bank Group

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The World Bank was created in 1944, initially to help rebuild Europe after World War II. Today, the World Bank's professed mission is to fight poverty and promote economic growth and development in the world.

The World Bank is actually made of several institutions, which together constitute the "World Bank Group" (WBG). The separate arms of the World Bank Group are: the World Bank, the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA). The World Bank lends money and provides grants to governments. It in turn is comprised of two separate arms, the International Bank for Reconstruction and Development (IBRD), which gives loans at near-market interest rates to middle-income countries, and the International Development Association (IDA), which gives grants and discounted loans to low-income countries. The International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) are the WBG's two private sector arms, providing loans, investments and insurance to companies.

## **International Development Association (IDA)**

Yemen joined the World Bank in 1969. It is the only country in the MENA (Middle East and North Africa) region currently considered low-income, and thus qualified to receive loans and grants from IDA. Other MENA countries, by virtue of their higher GDPs, borrow from IBRD. Besides being a low-income country, Yemen is also considered to be a "fragile state" by the World Bank because of the weakness of its policies and institutions and the existing risks of conflict and political instability.<sup>6</sup> **As of August 2006, the World Bank had financed 136 operations in Yemen for a total cumulative commitment of US\$2.5 billion.**<sup>7</sup>

The World Bank prepares a **Country Assistance Strategy (CAS)** (or equivalent document) for each country to which it lends. The

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<sup>6</sup> To learn more, visit the World Bank's [Fragile and Conflict-Affected Countries](#) webpage.

<sup>7</sup> [Yemen Country Page](#), World Bank.

CAS outlines Bank lending and technical assistance plans in a country over a three to five year period. For IDA countries, the CAS is supposed to draw upon the priorities laid out in the country's own **Poverty Reduction Strategy Paper (PRSP)**. However, the latest World Bank CAS for Yemen was issued in May 2006, covering the period of 2006-2009, a few months before the government completed its Five-Year Socio-Economic Development Plan (SEDP) for 2006-10 which was presented to donors in November 2006. The SEDP is being used in lieu of a PRS document.

**Both the CAS and the SEDP emphasize the importance of:**

- increasing non-oil growth;
- improving human development outcomes;
- improving fiscal sustainability; and
- addressing the resource sustainability crisis in water and food.

**Both also highlight** the importance of **free trade** and **private investment** as means to achieve economic growth, which is (quite controversially) assumed will lead to poverty reduction.<sup>8</sup>

**In the latest CAS, the World Bank committed to providing approximately US\$400 million** in IDA credits over the four year CAS period, which would account for less than 7.5 percent of the country's overall spending on development initiatives. While this amount is only indicative, the *Yemen Observer* reports that the World Bank had originally proposed US\$90 million worth of projects for 2008, but decided to increase that figure to US\$135 million.<sup>9</sup>

**However, a World Bank internal evaluation shows that the World Bank's previous assistance strategies in Yemen were not very successful.** The Independent Evaluation Group (IEG), the Bank's own internal evaluation unit, conducted a country assistance evaluation (CAE) in 2006 to assess the Bank's performance in Yemen between 1999 and 2005.<sup>10</sup> The CAE examined the Bank's assistance with respect to four major issues: governance, investment climate, social sectors and gender, and

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<sup>8</sup> Download the latest CAS document for Yemen in English or Arabic on the [World Bank's Yemen webpage](#).

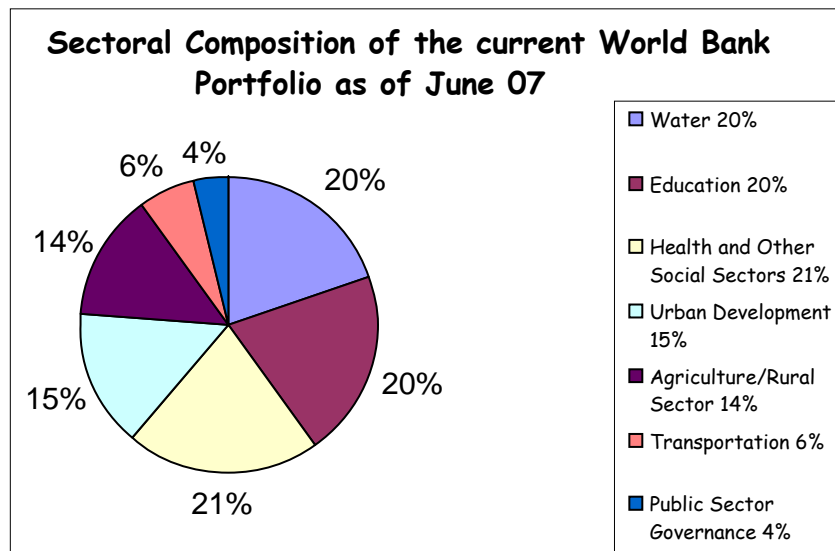
<sup>9</sup> [World Bank increases its support to Yemen](#), Yemen Observer, September 8, 2007.

<sup>10</sup> [Yemen Country Assistance Evaluation](#), Independent Evaluation Group, August 2006.

water. Overall, the CAE found the Bank's strategy to be "moderately unsatisfactory": service delivery standards were still low; the economy was still heavily dependent on its diminishing crude oil supply; health care provision remained inadequate; and the depletion of water resources was not dealt with seriously.

**There is further evidence that the Bank was unsuccessful in implementing its strategy.** Apart from its inability to curb soaring unemployment or to control record high inflation, the **Bank's support for lifting fuel subsidies led to violent protests** across the country in 2005.<sup>11</sup>

As of June 2007, **the World Bank had 18 active projects in its Yemen portfolio**, representing a total commitment of US\$814.25 million, of which US\$394.29 million had been disbursed. The following chart breaks down the sectoral composition of these projects.<sup>12</sup>



A review of the World Bank's portfolio in Yemen raises **two key questions**:

- What is IDA's strategy to deal with the **unemployment challenge** in Yemen?

<sup>11</sup> [Violent demonstrations across the country](#), Yemen Times, July 20, 2007.

<sup>12</sup> [Yemen Economic Update](#), World Bank, Summer 2007

- How does IDA envisage **creating other sustainable financial revenue** sources in Yemen, especially given the decreasing oil reserves?

**Find out more about IDA from a civil society perspective on BIC's website at: [www.bicusa.org/wb](http://www.bicusa.org/wb).**

**The World Bank's Yemen webpage** provides background information about IDA's activities in the country, Country Assistance Strategies, and reports on trends in Yemen (many available in Arabic): [www.worldbank.org/yemen](http://www.worldbank.org/yemen).

You can also visit the **World Bank's Public Information Center (PIC) located in the World Bank Office in Sana'a** at:

Hadda Street, No. 40; off Damascus Road / P.O. Box 18152

Sana'a, Republic of Yemen

Phone: (967-1) 413 708 / 413 710

Email: [WBYemen@worldbank.org](mailto:WBYemen@worldbank.org)

The PIC is open to the public from Saturday to Wednesday, 8:00am - 2:00pm.

### **International Financial Corporation (IFC)**

The IFC is the private sector arm of the World Bank Group. It provides loans and equity<sup>13</sup> financing, advice and technical services to businesses investing in developing countries like Yemen.

Yemen became a member of the IFC in 1970, but **nearly all of the US\$165 million worth of IFC investments in Yemen to date were made since 2005, when IFC opened an office in Sana'a**. While it invested in three projects between 1999 and 2005, its main intervention during that period was in the form of technical assistance to the government to improve the investment climate.

**The IFC has prioritized investment in Yemen, citing the country's abundant mineral wealth** and the potential for greater use of its deep-sea ports. Currently, the IFC is providing advisory services on a mining policy reform project with Yemen's Ministry of

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<sup>13</sup> Equity investment is the purchase of shares in a company or project.

Oil and Minerals. The project aims to reform Yemen's mining laws, regulations, and fiscal regime in order to make the mining sector more attractive to investors.<sup>14</sup> The IFC also sees engagement with Yemen as part of the World Bank Group's push to increase its involvement in fragile and post-conflict countries. Meanwhile, the IFC is reportedly interested in investing in a Dubai-based company to construct and operate the port structure at Aden.

Considering the recent increase in IFC investments in Yemen and its plans to scale up financing in the MENA region overall, **the coming years might witness an even further rise in IFC involvement in Yemen.** In April 2007, Yemen organized a major investment conference that targeted mainly private capital especially from the Gulf Cooperation Council. During this conference, **the government presented projects and investment opportunities worth some US\$8 billion in the energy, minerals, and tourism and infrastructure sectors.**<sup>15</sup> According to the World Bank, the IFC adopted a new strategy in Yemen that focuses on the financial sector: banking, leasing, trade finance and micro-finance.<sup>16</sup>

#### **A quick analysis reflects the following trends:**

- Most of IFC's investments to date in Yemen are directed toward support for **cement, oil and gas.**
- In 2006, the IFC approved investments in the HSA National Cement Company and the Ras Issa Refinery, which are owned by the same Yemeni investors, the HSA Group (Hayel Saeed Anam Group). This reflects the **IFC decision to cooperate mainly with stronger private groups in Yemen,** after it "suffered in the past from dealing with weak sponsors."<sup>17</sup> According to the IMF, the IFC "is focusing ... in particular, on the underdeveloped financial sector, banking, leasing, trade finance and selected industries."<sup>18</sup>

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<sup>14</sup> [IFC's Policy Reform Survey Finds that Business-Friendly Regulations Would Create Investment Opportunities in Yemen](#), IFC, September 10, 2007.

<sup>15</sup> [Yemen Economic Update](#), World Bank, Summer 2007.

<sup>16</sup> [The IFC in Yemen](#), World Bank.

<sup>17</sup> Ibid.

<sup>18</sup> [Yemen 2007 Article IV Consultation](#), International Monetary Fund, September 2007.

**Despite the increase in IFC investments in Yemen, there is little evidence to date that its activities have yielded significant improvements with respect to the major challenges facing Yemen.**

**Find out more about the IFC from a civil society perspective on BIC's website at: [www.bicusa.org/ifc](http://www.bicusa.org/ifc).**

**The IFC's Yemen webpage** provides background information about the IFC's activities in the country, and reports on trends in Yemen (many documents are available in Arabic) at: [www.ifc.org/ifcext/mena.nsf/Content/Yemen](http://www.ifc.org/ifcext/mena.nsf/Content/Yemen).

You can also visit the **IFC office in Sana'a** at No. 40 Hadda Street, off Damascus Road. The **Public Information Center** (PIC) mentioned in the IDA section of this document may also be a good resource for info on the IFC.

### **Multilateral Investment Guarantee Agency (MIGA)**

MIGA is another private arm of the World Bank Group. It provides private companies with political risk insurance to encourage them to invest in developing countries. It also assists host governments with legal services and strategic advice about attracting private investment.

## **The International Monetary Fund**

The International Monetary Fund (IMF) is often considered the World Bank's "sister institution," since they were created together in 1944 at the Bretton Woods Conference to perform complementary roles. While they often work together to influence the policies of borrowing governments, and countries' ability to access loans from one institution frequently depends on compliance with reforms required by the other, they are two different institutions with distinct mandates.

The IMF's original mission was to monitor and manage a system of stable exchange rates and to provide countries with short-term financing to help them overcome temporary balance-of-payments deficits (when spending on imports exceeds revenues from exports) and to support their exchange rate values. Today, the IMF focuses on monitoring countries' macroeconomic policies, providing both short and medium-term lending to countries with budgetary difficulties, and restructuring the economies of debt-ridden countries by imposing policy changes through structural adjustment programs and similar packages under different names.

Yemen joined the IMF in 1990, after its unification, and remains one of the few countries in the MENA region that is still indebted to the IMF. While it is not currently borrowing from the IMF, as of the end of August 2007, **Yemen still owed around US\$205 million to the IMF**.<sup>19</sup> Although Yemen is among the poorest countries in the world and remains indebted to many donor countries, it is not covered by the “Heavily Indebted Poor Countries” (HIPC) initiative of the IMF and the World Bank – an initiative designed to provide cancellation of poor countries' external debt. Yemen was on the list of eligible countries for this initiative when it was first launched in 1996. However, a subsequent increase in its revenue from oil and gas exports and repayment or rescheduling of some of its external debts changed its debt status, making it ineligible for the program.

The IMF conducts what is called “surveillance” of its member countries' economic and financial policies, and generally issues a report on an annual basis. Called an **Article IV Consultation**, these reports are of **critical importance in low-income countries** because, along with other IMF reports on its program in given country, they signal to donors whether the country is on the right economic and financial track, and **can influence the country's ability to receive further loans or aid**. The reports often contain information that may be useful to civil society organizations, whether or not they agree with the IMF's recommendations.

In the summer of 2007, Article IV consultations were held for Yemen.<sup>20</sup>

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<sup>19</sup> [Yemen - Credit Outstanding](#), IMF, August 31, 2007

<sup>20</sup> [Yemen 2007 Article IV Consultation](#), International Monetary Fund, September 2007.

**Three major concerns** were highlighted by the IMF staff:

- **The high inflation rate;**
- **unemployment;** and
- **the effects of declining oil reserves** on the sustainability of Yemen's public spending.

During this surveillance process, IMF staff discussed with the Yemeni government several measures to deal with these three challenges. **Some of those measures would have significant direct effects on Yemenis' daily life, such as withholding the wage increase, reforming the civil service, lifting fuel subsidies,**<sup>21</sup> **and reforming taxation through measures such as: doubling the regressive sales tax, reducing corporate taxes, and introducing a new fuel tax.** These changes, if applied, could severely impact the living standards of Yemenis by raising the price of basic goods and services while restricting wages. **According to the IMF, social safety net plans should be implemented** to mitigate the effects of those measures on the poor, but **experience has shown that such plans have done little to offset the worst effects of such reforms.**

Find out more about the IMF on the **Bank Information Center's IMF page**. It contains useful information and critiques of IMF policies and trends, as well as civil society contacts and a list of resources: [www.bicusa.org/imf](http://www.bicusa.org/imf).

**The IMF's Yemen webpage** is a useful resource for civil society to learn more about the Fund's activities in the country. It contains links to relevant Article IV papers and reports on trends in the country. Country papers can be helpful sources of information for civil society, since at times they include data, such as budgetary figures, that may be difficult to get from other sources. Visit the IMF's page for Yemen at: [www.imf.org/external/country/YEM/index.htm](http://www.imf.org/external/country/YEM/index.htm).

You can also **contact the IMF** directly at [YEMContact@imf.org](mailto:YEMContact@imf.org).

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<sup>21</sup> After the partial elimination of fuel subsidies led to violent protests in 2005, the Yemeni Government and IMF staff agreed to proceed slowly in implementing further reforms to avoid political instability.

# The Islamic Development Bank

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The Islamic Development Bank (IDB) was established to foster economic development and social progress according to Shari'ah law in its member countries. In its approach, the IDB appears to endorse the same principle that underlies much of the World Bank Group's activities: the belief that economic growth, principally through private investment and free trade, will lead to poverty reduction. Like the World Bank, the IDB provides loans to governments for development projects.

Yemen has been a member of the IDB since the Bank was established in 1973, but still, **little is known about the IDB's involvement in Yemen** because its operations are not transparent. In a donor conference held in November 2006, the IDB's Secretary General mentioned in his statement that the IDB had to that point financed 100 operations (both project and trade financing) in Yemen, amounting to a cumulative total of US\$630 million. He added that the current IDB portfolio in Yemen included 16 projects in the education, transportation, energy, and agriculture sectors. According to him, the **IDB has committed to providing US\$200 million for Yemen for the period 2007-2011**. He also reaffirmed IDB's commitment to promote private sector development in Yemen. As information on IDB is rarely made available, it is difficult to assess the effectiveness of its operations in Yemen. If the IDB is to fulfill its commitment to increase financing and foster development and social progress in Yemen, it is important that project information be made public so that Yemenis can know about and engage the institution on its planned involvement.

Visit the IDB's website to learn more about its operations. Note that its website contains only very general information and even basic project information can be difficult to access: [www.isdb.org](http://www.isdb.org).

### **About the Bank Information Center**

The Bank Information Center (BIC) partners with civil society in developing and transition countries to influence the World Bank and other international financial institutions (IFIs) in the interest of social and economic justice and ecological sustainability. BIC is an independent, non-profit, non-governmental organization that advocates for the protection of rights, participation, transparency and public accountability in the governance and operations of IFIs.

BIC is supported by private foundations and organizations that work in the fields of environment and development. Although based in Washington, D.C., in proximity to the headquarters of the World Bank and the International Monetary Fund (IMF), BIC is neither affiliated with nor funded by any of the IFIs or the United States government.

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