



Yemen Reinstated to Threshold Program

Aggressive and Demonstrable Progress on Reform Made

Since its eligibility for Threshold Program assistance was suspended in November 2005, the Republic of Yemen has aggressively and demonstrably worked to address areas in which its performance on Millennium Challenge Corporation selection indicators had deteriorated.

The MCC's Board of Directors selects countries for eligibility for Compact or Threshold Program assistance from a pool of candidate countries based on each country's commitment in three broad policy categories, ruling justly, investing in people, and promoting economic freedom, as measured by performance on 16 independent, non-U.S. Government policy indicators within their income peer group. Threshold countries do not meet the criteria for Compact eligibility, but are close and have demonstrated a commitment to improve policy performance. Under MCC policy, the Board of Directors may reinstate eligibility for a suspended country if it is determined that the country has taken corrective action or has demonstrated a sufficient commitment to correcting each condition for which assistance eligibility was suspended.

In early 2006, the Government of Yemen began implementing a series of wide-ranging reforms. Though not exhaustive, the brief descriptions below provide an overview of the reforms and commitments that have occurred or are in process since Yemen's suspension in November 2005:

Political Rights

On September 18, 2006, Yemen held presidential and local elections deemed free and fair by the European Union Election Observation Mission. The EU Mission characterized the presidential election as an "open and genuine contest" and a "major milestone" in the development of Yemen's democracy. In the run-up to the election, the ruling General People's Congress party and the Joint Meeting Parties signed an important pre-election agreement calling for the neutrality of the military; a team to scrutinize voter lists; the inclusion of opposition members on the board of the Supreme Council for Elections and Referenda; and equal access to government media for all parties during the election campaign.

Civil Liberties

The Government of Yemen has suspended a controversial draft Press law, initiated consultations with civil society on a new draft press law that seeks to protect journalists' rights, and lifted the suspension of three newspapers. The government also has initiated a more open policy toward journalists that allows better access to

information. In addition, Yemen has taken steps to increase female representation in government. In September 2006, a female judge was appointed to the Supreme Court and a female judge was appointed as the head of the civil court of appeals for Aden governorate. Five women recently were admitted into the Higher Judicial Institute.

Control of Corruption

Yemen has implemented a series of anti-corruption reforms. In June 2006, the government launched a large national anti-corruption awareness campaign in six cities and 700 locations to gain popular support for upcoming anti-corruption measures and to remove taboos associated with the issue of corruption. In July 2006, Parliament ratified a financial disclosure law requiring high-ranking public officials (including the President, the Vice-President and the Prime Minister) and public officials overseeing large financial transactions to file a financial disclosure statement. In December 2006, Parliament ratified an anti-corruption law that establishes of a National Supreme Anti-Corruption Authority made up of figures from the public sector, private sector and civil society, and having political and financial independence, investigatory powers and the authority to seize and confiscate corrupt proceeds.

Rule of Law

The Government of Yemen has adopted a broad range of judicial reforms. It has amended the law of Judicial Authority to remove the President from the Supreme Judicial Council, or SJC; chosen a well-qualified judge to head the SJC and given it an independent budget; retired, sanctioned, suspended and prosecuted more than 30 judges; established two commercial appeals courts and one public funds court to handle the increased case load; and put in place a computerized case monitoring system for 25 courts.

Government Effectiveness

Over the course of the last year, the Government of Yemen has reinvigorated its efforts to reform the civil service. It has eliminated thousands of “ghost workers” and “double dippers” through the issuance of biometric identity cards and the creation of a civil servant identification system. It has reduced the discretionary power of public officials by publishing the time, cost and procedural complexity of accessing public services in 23 government agencies. Additionally, it has approved a national procurement manual and standard bidding documents; begun online disclosure of procurement-related information and submitted a new procurement law for parliamentary approval removing all ministerial representation from the High Tender Board, establishing a new procurement monitoring board made up of technical experts and civil society and allowing non-voting observers to attend board meetings.

Voice and Accountability

In addition to the free and fair elections held in September 2006, the Government of Yemen has proposed a series of constitutional amendments that would reduce the length of the presidential term to five years and allow for the direct election of governors, district directors and Shura Council members. Additionally, the government has taken steps to increase government transparency – for example, by pledging to join the Extractive Industries Transparency Initiative.

Health and Primary Education Expenditures

In December 2006, the Government of Yemen passed a 2007 budget, which included substantial increases in funding to the health and education sectors.

Fiscal Policy

In 2006, Yemen reduced its fiscal deficit significantly. While high oil prices contributed to this improvement, the government has taken a series of significant steps to strengthen public financial management. In May 2006, the Ministry of Finance initiated the first phase of the Public Finance Management Strategy. An Action Plan and a Partnership Agreement were signed between the government donors, outlining a clear agenda with specific requirements for full implementation. In addition, the government has introduced a broad-based value-added tax, doubled administered prices of petroleum products to reduce the fiscal burden of subsidies, approved a Public Debt Management Bill, recruited 100 new staff to implement the General Sales Tax, doubled Qat revenues by collecting taxes at the sales point, retired thousands of civil servants and increased the independence of the Central Organization for Control and Audit.

Trade Policy

In mid-2006, the Government of Yemen signaled a strong interest in WTO accession. In the context of WTO negotiations, the government has offered to significantly reduce the average of binding tariffs and protected goods. Also, the unweighted tariff rate has fallen and the number of tariff bands has been reduced from 4 to 3. An Automated System for Customs Data system has been expanded to almost all entry points covering 90% of imports. The Ministry of Trade is working with the Customs Authority to create an action plan for accepting WTO valuation standards. The government has publicly pledged to reduce the time it takes for customs clearance and inspection procedures from 8 days to 4 days.

Regulatory Quality

In addition to reducing tariff rates and tariff bands, the Government of Yemen has streamlined business licensing procedures in the Ministry of Tourism, managed a devaluation of the riyal and put 40% of Yemen Mobile (a subsidiary of the state-owned Public Telecommunications Corporation) up for public offering. Also, the government

has implemented wide-ranging tax reform. By replacing hidden turnover taxes with a 5% sales tax, Yemen has reduced the total tax that businesses pay from 170% of gross profit to 48% of gross profit.

Time and Cost of Starting a Business

In 2006, the Ministry of Planning launched a Business Start-Up Simplification Process with technical assistance from the International Finance Corporation. At the same time, the Ministry of Industry and Trade published simple and clear registration guidelines for new businesses. Additionally, the Government of Yemen has pledged to reduce the time it takes to start a business from 63 to 30 days and the minimum capital requirement to start a business from 2700% of GNI per capita to the regional average.