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Contracts  
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Contacts with member countries: Yemen Arab Republic - Correspondence 01

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YEMEN ARAB REPUBLIC



YEMEN ARAB REPUBLIC

1. 7/16/69 Ahmed Barakat, Foreign Minister  
Ambassador Mohammed Said Al-Attar, Permanent Delegate to the UN  
Mohsin Al-Siri, President of the YAR Foreign Trading Company  
Abdul Azia Abdul-Ghani, Director General of the YAR Planning Board  
Abdlatif Al-Hamad, Director General, Kuwait Fund for Arab Economic  
Development
2. 4/8/75 Dr. Hassan M. Makki, Ambassador to the U. S.
3. 4/29-5/2/75 RMcN Notes (*Filed in RMcN office*).  
(Sana'a)
4. " Col. Ibrahim Al Hamdi, Chairman, Command Council  
Abdul Aziz Abdul Ghani, Prime Minister  
Yahya H. Gekhman, Deputy Prime Minister for Foreign and Economic Affairs  
Abdullah Barakat, Deputy Prime Minister for Internal Affairs  
Abdullah Alkorshomi, Minister of Public Works  
Mohamed Al-Gunaid, Minister of Finance  
Abdul Karim El-Eryani, Minister of State for Development and  
Chairman of the Central Planning Organization  
Hussain Almaqdami, Minister of Education  
Ali Lutf Althour, Minister of Economy  
Ahmed Abdo Saeed, Minister of State  
Tilak Malhotra, UNDP Resident Representative



## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: July 11, 1969

FROM: M. P. Benjenk *my*SUBJECT: Yemen Arab Republic (YAR): Briefing for your Meeting with Delegation  
on Wednesday, July 16

A delegation of four representatives from the Yemen Arab Republic (i.e. the northern of the two Yemens) is expected to visit the Bank on July 16 and 17. The delegation's visit is sponsored by the Kuwait Fund and they will be accompanied by two staff members of the Fund, including its General Manager, Mr. Abdlatif Al-Hamad. The delegation will include the following:

Ahmed Barakat, Foreign Minister

Ambassador Mohammed Said Al-Attar, Permanent Delegate of the YAR  
to the UN

Mohsin Al-Siri, President of the YAR Foreign Trading Company

Abdul Aziz Abdul-Ghani, Director General of the YAR Planning Board

Since the Bank has had no contact whatever with the YAR in the past we have very little current information at hand. We have just heard reports, however, that the Prime Minister, Hassan Al Amri, resigned on July 8 "for reasons of health" and that a new cabinet will be formed. The new Prime Minister has not yet been designated to our knowledge. Mr. Al Amri has headed the Cabinet off and on several times since the Imam (Monarch) was overthrown seven years ago, both under the first Republican President Colonel Sallal and under the incumbent President Al-Iryani, and we do not know the significance of his resignation. We know nothing about the Minister of Foreign Affairs other than that he was Minister of Social Affairs in the previous Cabinet, and we do not know if he will remain in the Cabinet. Ambassador Al-Attar was formerly Minister of Economy. He is French-educated and has written a book in French on the economic and social "underdevelopment" of the Yemen, which is one of the best sources available.

The present political situation can be understood better perhaps in an historical context. Even before gaining independence from Ottoman rule in 1918, the Yemen was governed by a despotic, conservative and xenophobic Imam altogether for 144 years until he was murdered during an attempted coup d'etat in 1948. He was succeeded by his eldest son, who gradually permitted contacts to grow with the outside world. Imam Ahmed accepted British, American and French technical assistance and admitted a small number of financial and military advisors, primarily from other Middle Eastern countries. When he died in September 1962 of wounds inflicted during an earlier assassination attempt, civil war broke out between dissident "Republican" forces led by Colonel Sallal and the Royalist successors to the Imam. The UAR supported the Republicans with troops, and Saudi Arabia sent military supplies to the Royalists. Republican forces gradually gained control of most of the country, and a Republican government was recognized by the US and the USSR and admitted to the United Nations in 1963. Fighting continued, however, until well after

President has seen

the UAR and Saudi Arabia agreed at the Khartoum Conference in October 1967 to withdraw their respective assistance to the two sides. The conflict has diminished gradually and appears to have ceased within the past year. Some of the Royalist military leaders have joined the Republicans, and there has been hope expressed, both within the country and outside, that a greater concentration might now be made upon economic development.

The International Monetary Fund prepared a desk study of the Yemen Arab Republic in December 1967 in expectation of its application for membership. This study, of which a copy is attached, reflects the paucity of information available. A formal request for membership was presented to the Fund Board in June 1969 and a subcommittee was set up to review the application. Additional information has been requested from the Government on the budget, monetary situation, foreign trade, balance of payments and monetary reserves which would be needed in the consideration of this application. The review procedure took three to four months in the case of Southern Yemen. However, I understand an effort will be made to complete it before the Annual Meeting for the Yemen Arab Republic if possible. An application to the Bank was also made at the same time as the application to the IMF.

The lack of information about the economy, particularly about the balance of payments and external debt, makes it difficult to reach any balanced conclusion about future bank creditworthiness. However, the limited data available, which are summarized in an annex to this memorandum, suggest that the Yemen Arab Republic is not likely to be creditworthy. The present content of the export package does not contain any items with bright prospects. Short of new discoveries of natural resources, exports are not likely to grow faster than import requirements. Furthermore, the country does not appear to have significant monetary reserves which might be drawn down in order to give enough time for new investment projects to come to fruition. It would therefore appear advisable for the Government to consider applying for IDA as well as Bank membership. The country would certainly qualify on poverty grounds (\$120 per capita) and is exceedingly underdeveloped.

There does not appear to be any particular purpose in this visit other than to foster a relationship with the Bank, and possibly to ask for an economic mission. Other meetings have been scheduled with Mr. Shoaib and Mr. Knapp, as well as with the Secretary's and Area Departments.

cc: Mr. Knapp  
Mr. Shoaib  
Mr. Dajany

The Yemen Arab Republic

Brief Summary of Available Economic Information

Area: 75,000 sq. miles. (Cultivated area about 3 million hectares.)

Population: 4 - 5.5 million (more than 80% rural, about 90% illiterate).

Political status: Independent since 1918, Republic since 1962.

GNP per capita: US \$ 120

Natural Resources: Yemen is richer in water resources than any other part of the Arabian Peninsula and has substantial agricultural potential; no other natural resources have so far been identified.

Production: The economy is largely based on subsistence agriculture and is basically self-sufficient. (In 1964 imports and exports represented approximately 4.5% and 2.2% of GNP respectively.) Principal agricultural crops are: cereals, coffee, qat (a narcotic leaf) and cotton. There is no significant industry.

Foreign Trade: No recent data is available.

	1963	1964
	in US \$ millions	
Exports	12	13
Imports	21	27
Deficit	- 9	- 14

In the early 1960's coffee accounted for about half of the exports and cotton around one fifth. About a third of imports consisted of food or food products, a sixth of textiles.

Reserves: No recent information is available. At the end of 1967 when there had been a sharp increase in convertible foreign exchange (consisting almost exclusively of sterling, non-resident deposits with the Central Bank of Egypt reflecting the expenditures of the UAR army in Yemen) gold, silver and foreign exchange assets of the Yemen Currency Board reached 82.6 million Yemeni rials (one rial = US \$ 0.9324) as compared with 26.9 million at the end of 1964.

Foreign Assistance: Between 1959 and 1967 some US \$ 42 million was granted to Yemen by the USA in the form of economic aid. In April 1967, the Yemen Republican Government announced that it would no longer accept American aid under the terms then current; the State Department thereupon announced the cessation of aid and US/AID personnel were withdrawn from the country. The Yemen Republic continues to receive aid from the Soviet Union and from Mainland China.



INTERNATIONAL MONETARY FUND

Middle Eastern Department - Western Division

The Yemen - An Economic and Financial Survey

December 26, 1967

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## The Yemen - An Economic and Financial Survey 1/

### Summary

The Yemen is a backward country located in the southwestern corner of the Arabian Peninsula. It covers an area of about 75,000 square miles and has an estimated population of about five million. Since the Republican revolution of September 1962, the country has been divided into two camps fighting a civil war with massive external assistance to both sides. The Yemen has a moderate climate with adequate rainfall and abundant cultivable land; no other significant natural resources have been discovered. The infrastructure is rudimentary and industry virtually nonexistent. Since the revolution a start has been made in reforming the fiscal and monetary systems with some success in the latter field; a Currency Board was established in 1964, a paper rial has been replaced foreign silver coins and one bank has been established. In a subsistence economy like the Yemen's, foreign trade plays a minor role; exports are mainly coffee and more recently cotton; and imports consist mostly of foodstuffs, tobacco, petroleum and textiles. The trade deficit is covered by emigrant remittances and external assistance.

#### 1. Historical Background

Centuries ago the Yemen was the seat of comparatively advanced civilizations. Strategically located with a moderate climate and fertile land, the Yemen has attracted conquerors from Rome, Persia and Ethiopia. The Turks were the last foreign rulers of the Yemen; in 1911 the country gained its autonomy and in 1918 achieved complete independence.

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1/ Owing to a severe paucity of sources of information, a complete and balanced survey of the economy and finances of the Yemen is not possible. This paper is based on scattered data which, in many cases, are neither up-to-date nor reliable. One of the best sources of information is Le Sous-Développement Economique et Social du Yemen by Mohammed Said el-Attar who, at the present time, is the Republican Minister of Economic Affairs.

The Yemen faced two expansionist forces operating in the Arabian Peninsula. In the south, the British gained a foothold when they occupied the port of Aden in 1823 and gradually expanded their sphere of influence into the hinterland. In the north and east the Saudis had been unifying most of the Peninsula under their control. Matters came to a head in 1934 when during a brief campaign the Saudis defeated the Yemenis and annexed the province of Asir. During the same year the treaty of Sanaa was signed with the British defining the border between the British controlled area and the Yemen and recognizing, in a vague way, Yemeni sovereignty over certain areas under British administration. <sup>1/</sup> After the Second World War the Yemen joined the Arab League (1945) and the United Nations (1947).

In 1948 a new phase in the Yemen's history was ushered in with the assassination of Imam (king) Yahya after 44 years of absolute rule. The coup lasted only a few months because his successor, Imam Ahmed, sought and received Saudi military assistance. The new Imam deliberately pursued a policy of isolating the Yemen from the outside world at the time when other parts of the Arabian Peninsula had begun to modernize. His rule was harsh and repressive. In 1955 a palace-attempted coup by his brothers was suppressed and in 1959 he returned from Italy (where he was under medical treatment) to repeal certain mild reforms introduced during his absence by his son. In 1961 he was wounded in an assassination attempt; he never fully recovered and died in September 1962.

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<sup>1/</sup> The term "Greater Yemen" refers to the concept of a country including the lost territories (Asir and Aden and its hinterland). Compared with the Yemen, Greater Yemen represents more than 100 per cent increase in territory and approximately 50 per cent increase in population. It should be noted that when the Federation of South Arabia gained its independence in November 1967, the Government chose the official name of "The People's Republic of South Yemen" and declared the policy aim of eventual unity with the Yemen.

Ahmed's successor, Imam Al-Bedr, ruled for a few days in Sanaa before a military coup led by Abdullah Al-Sellal deposed him and declared a Republic. 1/ Like his father, Al-Bedr sought Saudi help to recapture his throne but the Republicans had called for military assistance from the U.A.R. Civil war followed; each faction held part of the country but neither was able to defeat the other. In August 1967 the U.A.R. and Saudi Arabia agreed at Khartoum to disengage from the Yemen conflict; the former would withdraw its troops and the latter would cease all assistance to the Royalists. A short time later Al-Sellal was replaced by more moderate republican leaders. Following the complete withdrawal of U.A.R. forces, a temporary cease fire was shattered and the conflict was resumed.

## 2. The People

No census has ever been taken in the Yemen; estimates of the population vary between 4 to 5.5 million 2/ excluding an estimated one million Yemeni emigrants residing abroad. About 90 per cent of the population is rural; the important cities are Sanaa (the capital), Hodeida (the principal port) and Taiz with estimated populations of 80,000 for Sanaa and 30,000 for each of the two other cities.

Most of the people are Arabs; indeed, according to ancient legends, the Yemen was considered as the original homeland of the Arabs. Although the country has experienced the cross currents of the three great monotheistic religions, Islam is by far the dominant religion in the Yemen.

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1/ Some of the leaders of the 1962 coup had participated in the 1948 coup.

2/ About equal to the population of Syria (5.45 million in 1966) and possibly about half the population of the whole of the Arabian Peninsula.

In fact/prior to the Republican revolution, the Yemen was an Islamic theocratic state with a religious leader (Imam) being also the temporal head of the state. The Koran provided both the constitution and the legal framework for the country. However, unlike most other Islamic countries, the Moslems of the Yemen are about equally divided between Sunnis and Shiites 1/ (the two major sects of Islam) and this division has been a major factor in the endless feuding between the tribes of the Yemen.

The standards of education and health are very low. About 10 per cent of the population is literate. In 1967 about 1,500 teachers taught approximately 61,500 students in 1,017 schools; in addition about 20,000 students were enrolled in Koranic schools. Life expectancy is very low (30-40 years) and infant mortality is very high (about 50 per cent). There are few foreign doctors and perhaps 2,500 hospital beds. Many diseases are endemic and the Yemen is in the traditional route of serious epidemic diseases. In addition, widespread chewing of qat (a mildly narcotic leaf) represents a serious health problem.

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1/ The Shiites of the Yemen belong to the Zaidi sect and include the royal family.

### 3. The land

The Yemen is located in the southwestern corner of the Arabian peninsula (see following map) falling between north latitude 18° and 12°. It borders Saudi Arabia in the north and the east <sup>1/</sup> and the newly independent nation of South Yemen in the south; the Red Sea lies to the west. The Yemen covers an area of about 75,000 square miles. <sup>2/</sup>

There are three distinct regions: (1) the Red Sea coastal strip ranging in width between 20-40 miles, (2) the highlands of the interior with peaks up to 12,000 feet and (3) the eastern mountainous area tapering off into the desert. The coastal strip is hot and humid in the summer but mild in the winter. The central highlands, the best part of the country, are mild the year round. Maximum and minimum temperatures in Sanaa are 28°C and -1°C, and in Ta'ez 32°C and 15°C. Annual rainfall in the highlands averages 15-20 inches in the north and up to 30 inches in the south.

### 4. Resources

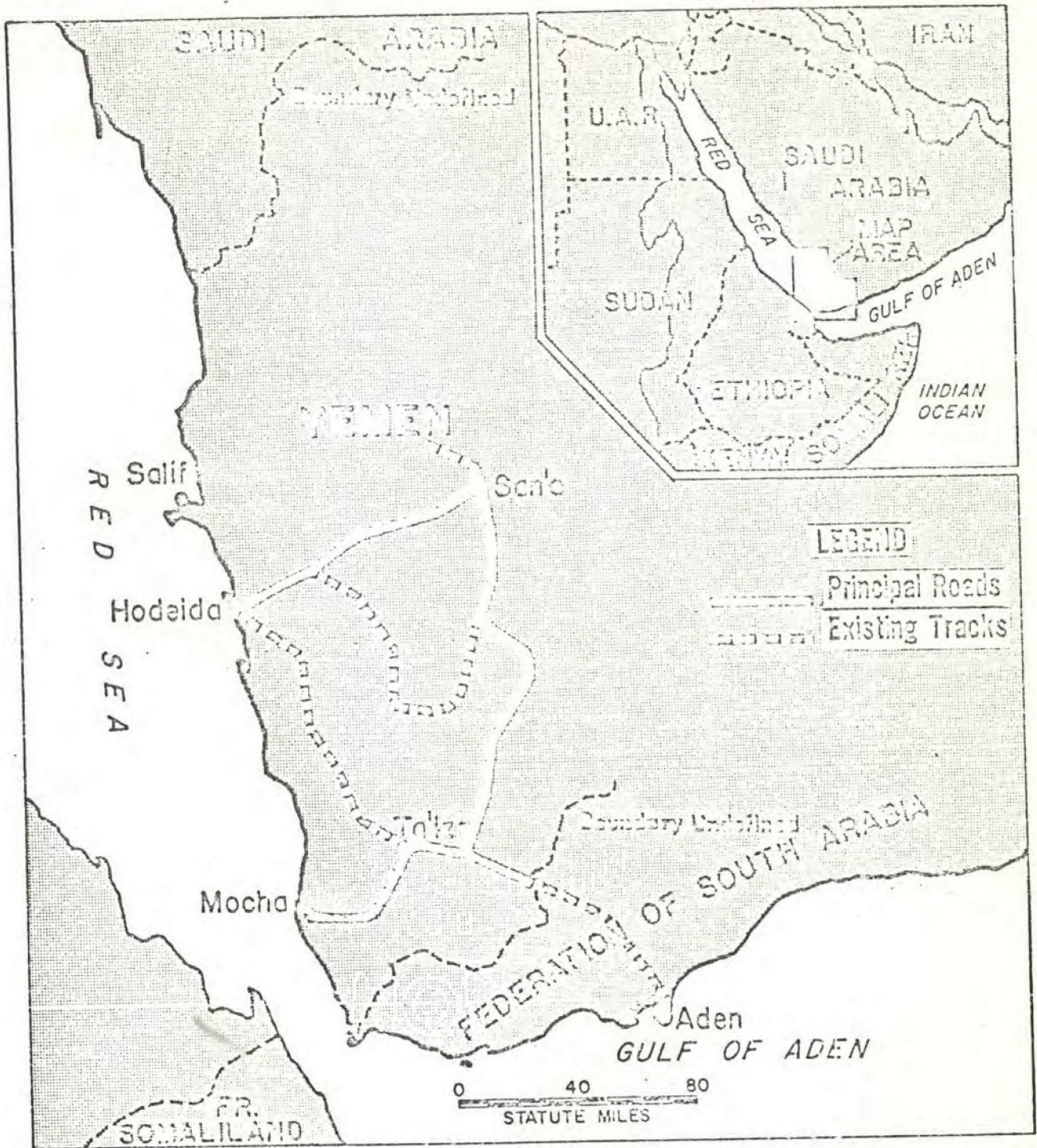
The Yemen is rich in agricultural land with adequate water supply mainly from rainfall as there are no rivers or lakes of significance. The country is too near the equator and its mountains are not high enough for substantial snowfall to feed year long rivers; however, it is possible to construct dams in valleys to collect rainwater and use it for irrigated agriculture. Although the Yemen is mountainous, a relatively efficient terracing system exists which permits cultivation of a large area of the country. There are no important forests but the livestock population is estimated to be considerable.

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<sup>1/</sup> The northern frontier between Saudi Arabia and the Yemen was defined in 1934; the eastern frontier and part of the southern frontier have never been demarcated owing to conflicting claims to sovereignty over large parts of Al-Rub Al-Khali (the great desert so-called the Empty Quarter) which have never been settled.

<sup>2/</sup> The Yemen is thus twice the size of Jordan (37,500 sq.mi.) and slightly larger than Syria (70,000 sq.mi.).

# YEMEN



Apart from agricultural potential, the Yemen has virtually no other proven natural resources. Salt is the only mineral of significance and geological surveys indicate sufficient existence of limestone for a cement industry. No petroleum has been found in the Yemen. Fishing along the Red Sea coast is a minor industry with some potential.

#### 5. Infrastructure

About a decade ago the Yemen began developing a preliminary skeleton of an infrastructure. As the country had no major port facilities and was served principally by Aden, in 1956 an agreement was signed with the U.S.S.R. to develop the port of Hodeida. Work began in 1958 and the port facilities were completed by the end of 1961. Mocha, in the south, is a secondary undeveloped port.

The principal roads link the major cities Sanaa, Hodeida, Taiz and Mocha with an extension to Aden (see map above). Only the Sanna-Hodeida road (135 miles) is asphalted; it was built by the Mainland Chinese. The United States has built an all weather road linking Mocha and Sanaa passing through Taiz (244 miles). In the spring of 1966 the U.S.S.R. began building a coastal road linking Hodeida and Mocha. There are no railways in the Yemen. The Yemen Airlines serves four or five airports and connections to the outside world are made via Djibouti, Asmara or Aden.

Less than 3 per cent of the population is served with electricity. Sanaa and Taiz have 24-hour service; Hodeida only a limited service. Water facilities, telephone and telegraph services are equally rare.



6. The Economy

The Yemen economy is based on subsistence agriculture. Per capita GNP has been estimated at about \$120<sup>1/</sup> approximately the same as in the Sudan (\$107 per capita GDP in 1965/66). Assuming a total population of five million, GNP may be estimated at about \$600 million. The Yemen economy is basically self-sufficient; in 1964 imports and exports<sup>2/</sup> represented approximately 4.5 per cent and 2.2 per cent of GNP respectively.

A 1960 report by F.A.O. stated that "on the whole, the country (was) largely self-sufficient as regards its food supply. Large potential resources for agricultural production (were) untapped... The Yemen (was) probably one of the best terraced countries in the world." Probably one of the major factors hindering agricultural development in the Yemen was the antiquated land tenure system under the Imamate regime. In theory, the Imam owned the whole country; in practice the system was quasi-feudalistic with large land holdings by the major families of the Yemen. The F.A.O. mission estimated that 90 per cent of the small peasants owned less than 20 per cent of the cultivated land. According to a perhaps exaggerated calculation, the tenant-farmer was left with as little as one fifth of his crop, four fifths being paid out in taxes, rents and interest.

The cultivated area is estimated at about three million hectares (slightly less than 3.3 million hectares in Syria in 1965) representing approximately 15 per cent of the country's area. The principal crops are cereals, coffee, cotton, qat (a narcotic leaf) and fruits

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<sup>1/</sup> The source of this estimate is A.I.D.; it probably represents no more than an educated guess and is given without reference to any specific period.

<sup>2/</sup> See below export and import figures; the data are compiled in Direction of Trade from trade data of partner countries with possible underestimation of the volume of foreign trade of the Yemen.

and vegetables. Up-to-date production data are not available; however, some output figures for the period 1957/58-1961/62 give a general, though incomplete, idea of the volume of agricultural production.

Table 1. Yemen: Agricultural Production

(In thousands of metric tons)

Crop year	1957/58	1958/59	1959/60	1960/61	1961/62
Sorghum and millet	750	600	550	550	550
Wheat	20	10	10	10	10
Barley	2	1	1	1	1
Maize	20	15	15	20	15
Peas and beans	55	40	38	35	38
Potatoes	45	35	35	35	40
Coffee	54	51	54	50	50
Cotton	1.2	2.0	2.2	2.5	3.2
Qat (in tons) <u>1/</u>	n.a.	n.a.	n.a.	85	61

Source: Le Sous-Développement Economique et Social du Yemen (based on

F.A.O. estimates.

1/ Export figures.

Cereals, mostly sorghum and millet, are a basic component in the diet of the population and the total output is consumed locally. Certain trade figures for 1959-1961 indicate some imports of wheat, flour and rice to compensate for the decline in production of cereals which was mainly caused by drought; the cultivation of cereals is almost totally dependent upon rainfall. Other important crops mainly consumed locally are peas, beans and potatoes.

Coffee and qat are the traditional cash crops with cotton a relative newcomer. Coffee is of the premium quality (Mocha); annual production is about 50,000 tons of which approximately 10 per cent is exported accounting for about one half of total export earnings. Qat is also for the most part consumed locally (the leaf is chewed resulting in intoxication); a proportion is exported for medical use abroad. In recent years, authorities in East

African countries have intensified governmental control over production of qat with the result that in the Yemen there has reportedly been some substitution of the qat trees for coffee plants. While until recently coffee was the principal cash crop, now it is thought that possibly qat has moved to first place.

Cotton production was introduced in the mid-1950's and production has increased to 3,200 tons 1/ in 1961/62. Cotton is mainly of the American variety Acala and some of the Sudanese variety Sakel. It is grown on irrigated land principally along the Red Sea coast; the area is very suitable for cotton cultivation as yield per hectare is estimated to be one of the highest in the world. Until recently, virtually all the cotton output was exported accounting for nearly 20 per cent of total export earnings. However, recently Mainland China established in Sanaa a textile factory, the country's only modern industrial firm, which uses home grown cotton.

Other agricultural production includes a wide variety of fruits ranging from dates and citrus along the sea/coast to raisins, apples and peaches in the highlands. The quality is reported to be good and most of the output is marketed locally. Substantial numbers of livestock are kept by Yemeni farmers, principally sheep and goats estimated at nearly nine million heads; some are of the Karakul type. Fisheries and forestry are minor activities in the agricultural sector.

There is no industry to speak of in the Yemen. A small textile factory operating in Sanaa and electric generation in a few major towns have already been mentioned above. In addition, some minor traditional artisan industries flourish. Currently only rock salt is mined; in 1961 production totalled 120,000 tons valued at about \$126,000. In the past decade, two American and one German companies have been given concessions 2/ to search for . . .

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1/ Probably ginned cotton.

2/ It is not known which . . .

petroleum but none was found. Currently experts from the U.S.S.R. are prospecting for oil in the Yemen.

#### 7. Public Finance

It cannot be said that the Yemen has a fiscal system; under the Imamate regime budgetary procedures were unknown and since the 1962 revolution civil war conditions have prevented making significant progress in introducing appropriate fiscal procedures. Imam Yahya himself kept careful accounts of tithes and other taxes permitted by the Koran and collected in cash or in kind in the various provinces. He seemed to have assumed a moderate growth in the economy and the population and accordingly demanded a proportionate increase in levies. He did not maintain an accounting of expenditures, but it may be fairly assumed that outlays were mainly for national defense and internal security broadly interpreted to include payouts to keep the tribes loyal.

Unlike his father, Imam Ahmed, did not keep a recording of revenues. However, a rough estimate of the budget in 1961 indicates receipts and expenditures balanced at 25 million thalers.<sup>1/</sup> The receipts consisted of 21 million thalers in taxes and 4 million thalers in foreign trade duties. Taxes were collected under the Islamic Zakat system which consisted of 2.5 per cent wealth tax (tax on property with intrinsic value, i.e., money gold, jewelry, etc.); 10 per cent of all crops grown on nonirrigated land and 5 per cent on crops grown on irrigated land plus a fixed levy per head of cattle. In addition, the state collected a surtax for the poor of about 3 per cent and required payment of fees for performance of various governmental services. The non-Moslems did not serve in the army but had to pay a levy to share in the defense of the realm. Import duties consisted of 10 per cent on essentials and 20 per cent on nonessentials.

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<sup>1/</sup> See below section 8, for exchange value of the thaler.

plus various specific duties (for the poor, education and the right of passage, etc.) which resulted in additional 2.5 per cent import duties. Various export taxes with differing rates were collected on the main exports: coffee, raisins, rugs and others. Finally, the state collected taxes on trucks and cars (so-called circulation tax) for the purpose of maintaining the roads. No details are available on the expenditure side.

The above information related to the ordinary budget. In addition, a capital budget may be conceived as having existed consisting of the total cost of the various projects financed by foreign loans and grants. Schools have been built with Kuwaiti financing and staffed by Egyptians. The Russians have built the Hodeida port, the Chinese roads and the textile factory and the Americans roads and water systems. Estimates put such external aid at least \$15 million for each of 1959 and 1960.

Since the 1962 revolution the warring factions have received massive military and financial assistance from their patrons: the U.A.R. for the republicans and Saudi Arabia for the royalists. Although civil war conditions did not permit the introduction of proper budgetary procedures, in July 1964 the Republican Government adopted the first annual budget in the country's history for the fiscal year ended June 30, 1965. A balanced ordinary budget of \$33 million and a projects budget of \$15 million (financed by external loans and grants) were approved. No information is available for subsequent fiscal years.

### 8. Money and banking

The Austrian Maria Theresa dollar - THALER - was already established as the principal medium of exchange in the Red Sea area in the early years of the nineteenth century. The Thaler was ~~the~~ practically the legal tender in various parts of the Arabian Peninsula and of the Horn of Africa, including Ethiopia, but it never was the only coin in ~~current~~ circulation as a variety of gold coins, <sup>ly</sup> particular/Turkish and British, were also in use. There were also the currencies introduced by the colonial, protecting, and later national governments for ~~the~~ various parts of the region.

Since before the First World War the British Government resisted the diffusion of this coin in the southern coast of the Peninsula, and decreed the rupee as the legal tender for that part of the area. During the 1920's the Saudi Arabian Government introduced the Saudi riyal with the intention of ~~the~~ gradual elimination of the Thaler from circulation in the Saudi Kingdom. In 1945/46 the Ethiopian Government issued the Ethiopian Dollar, the purpose being the replacement of the Thaler with a national currency. In the Yemen, until after the 1962 revolution, the Thaler remained the main monetary unit, and the Yemen was the main market in which Thalers circulated.

All Thalers, regardless of the actual date of their minting, are dated 1780 because it was thought that changing the date might shake the confidence of the native population. The Thaler is an Austrian silver coin with the bust of Queen Maria Theresa on one side and the Austrian double eagle on the other. The coin is slightly larger than the

silver dollar. In 1917 the coin was reported as weighing 433.080 grains and of 0.833,33 fineness. It was also reported that the local population accepted it as weighing 480 grains, or an ounce, and actually used it as a weighing measure. Before the First World War, some 200 million Thalers were in circulation in the area mentioned above. During the war the supply of Thalers from Austria came to a halt and in fact it has been estimated that some 40 million had been exported from the Red Sea area during the 1914-1918 war years.

Before the First World War, Thalers were minted only in Austria (or Austria-Hungary as it then was). Since then Austria has remained the principal source, but the coin has also been minted by Italy, Great Britain, and to a lesser extent by Belgium. However, in 1963 Austria regained the exclusive right of minting the Thalers. During the 1950's, Iram Ahmed toyed with the idea of minting the coin with his bust on it replacing the Austrian Queen, but somehow he never followed up on the project. The Yemen Government minted on leather, however, denominations for the Thaler or 40 bougchas. The post-World War II Thaler had a gross weight of 28.0668 grams, a diameter of 39.5 millimeters, and a thickness of 2.5 millimeters. Its metal composition is  $833\frac{1}{3}$  silver and  $166\frac{2}{3}$  copper. It is impossible to determine the exchange rate of the Thaler. However, the value of the silver content of a post-World War II Thaler varied between US\$0.75 and US\$0.95 depending on the <sup>international</sup> ~~normal~~ price for silver.

In 1959 the National Commercial Bank (a Saudi private bank), the first bank to operate in the Yemen, opened an office in Hodeida and followed later with offices in Sanaa and Taiz. The bank ~~dealt~~ <sup>dealt</sup> ~~mainly~~ <sup>foreign</sup> in / exchange ~~with~~ with occasional three to six-month credit being granted for foreign trade purposes. Furthermore, in some cases, strong political personalities were able to secure a loan from the bank. Soon after the September 1962 revolution the bank was nationalized with 51 per cent government participation in its capital of 10 million thalers and was renamed the Yemen Reconstruction and Development Bank (Y.R.D.B.). No information is available on the operation of the reconstituted bank.

Another important step in the monetary reform in the Yemen was taken in February 1964 when Law No. 6 for 1964 was promulgated establishing a Yemen Currency Board and permitting the issue of currency notes. The law established the Board as an autonomous public institution with a capital of 2 million Yemeni rials (see below the specifications for the new currency). It was granted the exclusive right to issue bank/notes and mint coins for the Yemen and was charged with the task of maintaining the internal and external value of the Yemeni currency. An administrative committee headed by the Minister of the Treasury as president and consisting of a vice president, general manager and three other members, was charged with the responsibility of running the Board.

The law designated the Yemeni rial 1/ as the currency unit for the Yemen Arab Republic and defined its value as equalling 0.829427 grams of pure gold; i.e., equalling one third the gold content of the pound sterling (before the November 1967 devaluation) or about 93.3 U.S. cents. The parity <sup>metallic</sup> chosen seems to have been dictated by the approximate intrinsic/value of

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1/ The abbreviations are YRl (singular) and YRls (plural).



the silver Thaler at that time and the Board was made responsible to ensure parity between the new paper rial and the silver coin. The paper currency was declared legal tender and all government departments, organizations, companies and individuals were called upon to accept it as such without limitations and the public was warned that refusal to accept bank notes was punishable under the law. One hundred per cent cover of all notes issued was decreed which may consist of gold, silver, convertible foreign exchange and foreign securities issued or guaranteed by foreign governments in convertible currencies.

Table 2. Yemen: Statement of Yemen Currency Board

(In millions of Yemeni rials)

	1964			1965		1966		1967	
	May	June	Dec.	June	Dec.	June	Dec.	June	Oct.
Gold	0.6	0.6	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Silver	2.4	2.8	3.0	3.4	3.4	3.4	3.4	3.4	3.4
Convertible foreign exchange <sup>1/</sup>	9.1	11.0	23.8	41.2	51.1	62.6	68.0	74.3	79.0
Assets = Liabilities	<u>12.2</u>	<u>14.4</u>	<u>26.9</u>	<u>44.7</u>	<u>54.7</u>	<u>66.1</u>	<u>71.5</u>	<u>77.2</u>	<u>82.5</u>
Notes issued	12.2	14.4	26.9	44.7	54.7	66.1	71.5	77.8	82.5

Source: Balance sheets of the Yemen Currency Board.  
<sup>1/</sup> Dollars and sterling.

At the end of May 1964, the first balance sheet of the Currency Board showed that more than YRls 12 million had been issued covered mainly by sterling and dollar balances. The note issue has increased to nearly YRls 83 million at the end of October 1967 reflecting the successful introduction of paper currency to the republican-held territory of the Yemen. The sharp increase in convertible foreign exchange consisted almost exclusively of sterling nonresident deposits with the Central Bank of Egypt (see below) which mainly reflected the financing of expenditures of U.A.R. forces in the Yemen.

The Currency Board, in its Annual Report covering activities during the period February 6, 1964-June 30, 1965 noted the issuance of YRls 44.7 million (see table above). Part of the gold cover, approximately equivalent to YRls 0.4 million had been sold to the Central Bank of Egypt and invested in securities. In addition, about YRls 2.7 million in silver republican rials and 0.7 million thalers had been shipped to Cairo, the former sum for deposit and the latter to be melted into silver bars.

On June 30, 1965 the foreign exchange component of the note cover was distributed as follows: (1) the equivalent of YRls 0.4 million in sterling deposits with the Italian Commercial Bank (Milan) earning an annual interest of 6-7/8 per cent; (2) the equivalent of YRls 0.4 million in dollar deposits with the Italian Commercial Bank earning 5 per cent interest per annum; (3) the equivalent of YRls 0.5 million in sterling deposits with the Yemen Reconstruction and Development Bank earning an annual interest rate of 4-5/8 per cent; (4) the equivalent of YRls 39.9 million in nonresident sterling balances with the Central Bank of Egypt earning 4-5/8 per cent interest per annum.

The Report noted that according to Law No. 11 of 1965 (promulgated in March 1965) the Government ordered the withdrawal of Maria Teresa Thalers from circulation during the period ended April 30, 1965. The necessary instructions were issued and conversion of Thalers into paper rials was permitted at the offices of the Currency Board and at the branches of the Y.R.D.B. However, during the period of the notice only 205,695 Thalers were collected owing to the fact that most conversions were made in or via the Aden free market where the Yemen paper rial was being sold at a discount and the Thaler at a premium owing to rising prices of silver. This led the Board to recommend the promulgation of a comprehensive exchange control law and an import and export law.

During the period under review the Board's gross income slightly exceeded YRls 1 million; net profits amounted to a little more than YRls 0.5 million.

9. External Sector

Owing to its isolation and backwardness, foreign trade does not play an important role in the Yemen economy. Although no official foreign trade statistics are available, an incomplete picture could be provided based on data compiled from partner countries' trade returns.

Table 3. Yemen: Foreign Trade

(In millions of U.S. dollars)

	1961	1962	1963	1964
Exports	11	12	12	13
Imports	-16	-16	-21	-27
Trade deficit	-5	-4	-9	-14

Source: Direction of Trade, Annual 1961-65.

The general picture is that while exports have stagnated, imports rose sharply in 1963 and 1964 probably reflecting the needs of the large U.A.R. army which came to the Yemen to assist the Republican side in the civil war. Partial Yemeni customs returns indicate that coffee exports account for at least half of total exports and cotton (in 1961) for 18.5 per cent. In 1961 imports consisted mainly of food products (29 per cent), tobacco and cigarettes (7 per cent), petroleum (12 per cent) and textiles (17 per cent). Determining the direction of trade is rather difficult because the port of Aden handled nearly 90 per cent of Yemen foreign trade before the port of Hodeida was opened, and even in 1961 Aden accounted for about 50 per cent.

The above data indicate a growing deficit on the trade account; however, there are reasons to believe that this has been more than offset, in recent years, by net receipts on the transfer and capital accounts. First, the Yemeni emigrants, more than one million residing abroad, regularly remit assistance to their relatives back home. Secondly, during the past five years the Republican side has received budget support, and other financial and technical assistance, from the U.A.R. and the Royalist side from Saudi Arabia. Thirdly, as mentioned above, the United States, the U.S.S.R., Mainland China as well as the Arab countries have financed various development projects in the Yemen. Finally, the demonetization of the silver currency has resulted in considerable export of silver coins and the remittance of the proceeds in foreign exchange to the Yemen.

Obviously, the Yemen will need massive external assistance to emerge from its backward state and the Yemen has already entered into a number of economic, trade and payments agreements with Communist bloc countries, some of the major Western countries and virtually all the Arab countries. In 1963 the Yemen and the U.A.R. concluded an economic agreement and a trade and payments agreement; the Yemen was granted a long-term interest free loan of £E 1 million. The 1967 trade protocol between the two countries specified a level of trade of £E 3 million. There seems to be no shortage of offers of assistance. But the Yemen is ill-equipped to make the right economic choices.



## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

DATE: April 7, 1975

FROM: Martijn J. W. Paijmans, Director, Country Programs I  
(thru Munir P. Benjenk, Vice President, EMENA)SUBJECT: Visit of The Ambassador of The Yemen Arab Republic - Tuesday, April 8, 1975

6:30 p.m.

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1. Dr. Hassan M. Makki, Ambassador of The Yemen Arab Republic, will be bringing with him a letter from his Prime Minister, warmly welcoming you and Mrs. McNamara on your visit to Yemen. Mr. Ghassan El-Rifai, the Loan Officer on Yemen Arab Republic, will accompany the Ambassador.
  2. Dr. Makki arrived in New York on October 12, 1974 as Head of the Yemen Mission to the United Nations. He then became the Ambassador in Washington. As mentioned below, he has been the Prime Minister for Yemen for a brief period.
  3. Dr. Makki got his Doctorate in Economics from the University of Bologna, Italy, in 1960 and spent three years at the University of Rome. He has since held numerous high posts in the Yemen Government; the most prominent of which were: as Chairman of the Yemen Bank for Reconstruction and Development, Minister of Economy, Foreign Affairs and Communications, Ambassador to Rome and to the Federal Republic of Germany. He then became Deputy Prime Minister in 1972 and Prime Minister from March to June 1974.

G.El-Rifai/hj

cc: Mr. Asfour, Division Chief, EMENA CPI

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## OFFICE MEMORANDUM

TO: Memorandum for the Record DATE: May 14, 1975

FROM: Ghassan El-Rifai, Loan Officer, EMENA CPI *GR*

SUBJECT: Notes on Mr. McNamara's Visit to Yemen Arab Republic (YAR) from April 29 to May 2, and to the People's Democratic Republic of Yemen (PDRY) from May 2 to May 4

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1. Mr. McNamara arrived in Sana'a on the morning of April 29; Messrs. Paijmans and El-Rifai participated in the visit to both YAR and PDRY. Mr. McNamara met with the Presidents of the two countries and their Prime Ministers, along with other key ministers and staff involved in our projects. (A list of persons met is given in Annex I attached). Mr. McNamara also visited most of our projects sites and discussed with the staff involved the progress of these projects. (The locations visited are mentioned in Annex II attached).

2. Topics Discussed During Visit to Yemen Arab Republic

- (a) Increase of Financial Allocation. In view of the limited natural resources of the country and in order to enhance the development process in Yemen, Mr. McNamara was requested that the financial allocation to YAR should be increased in order to meet their requirements and needs. Mr. McNamara explained to the Government the limitations on IDA's resources. He, however, indicated that additional IDA funds could be extended if the Third Window emerges. Nevertheless, these additional funds would not be substantial. Mr. McNamara further indicated that although IDA's allocation to Yemen is small, nonetheless, the Bank is trying to use these allocations as a catalyst to mobilize other Arab donors to co-finance with IDA projects in Yemen. He also expressed the Bank's readiness to provide more manpower in order to attract other donors.
- (b) Resident Representative. The Minister of Finance stated that a Resident Representative would improve project implementation and would reduce the heavy amount of paper work being currently exchanged between IDA and the Government. Mr. McNamara explained that this approach is not always very effective and it is considered only when it is absolutely necessary to help the Government if matters get completely bogged down and, fortunately, this is not the case in YAR.

May 14, 1975

- (c) Project Processing. Some concern was expressed by the President and other ministers about the delay in our project processing. They further explained that since most of IDA projects in Yemen affect a great number of people, the Government is under continuous pressure from these people, who are anxious to see the results of these projects. Mr. McNamara indicated that this is always the case in the early stages of project implementation. Nonetheless, the Bank is open to suggestions which may advance and improve project implementation.
- (d) Technical Assistance to the Central Planning Organization. The YAR Government expressed its gratitude for the services rendered by the Planning Team which is financed by the Kuwait Fund and the Bank. They requested more assistance in this field and some assistance to the Prime Minister's Office. Mr. McNamara was also impressed with the work of the Planning Team, and he showed willingness to extend more assistance in this field. There was also a general agreement with the Prime Minister on basics of support to his office (public administrator).

3. Topics Discussed During Visit to People's Democratic Republic Of Yemen

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- (a) Mineral Exploitation. Mr. McNamara was requested by the President, and in particular by the Prime Minister and the Ministers of Finance and Planning, that the Bank Group should extend assistance to PDRY in the field of mineral exploration and exploitation, particularly iron ore. Mr. McNamara urged the Yemenis to use the UNDP's capability for assistance in the exploratory stage, as it would be premature for the Bank to extend financial assistance. However, he indicated that the Bank is always willing to assist in providing technical guidance once the exploratory stage is past, so as to protect the country's interest. Mr. McNamara expressed the Bank Group's readiness to consider financing iron ore mining, possibly on the basis of an enclave project, but only after full completion of the preparatory studies. The Government promised that they would follow this up with the UNDP and keep us informed. Mr. McNamara cautioned the Government against the straight Build up of heavy industry and stressed the importance of light industry to start with.

May 14, 1975

- (b) Co-financing. Mr. McNamara explained strongly the need to establish some kind of arrangements for co-financing in view of limitations on IDA's resources. The Government indicated that they are seeking such assistance and in their opinion the chances are very good for cooperation with some countries in the region.

Attachments

G.El-Rifai:hj

cc: Messrs. Benjenk, Burmester, Paijmans, Asfour  
Miss Blanche Moore

MR. Mc'NAMARA'S VISIT TO YAR AND PDRY

List of People Met

YEMEN ARAB REPUBLIC

Col. Ibrahim Al Hamdi	Chairman, Command Council
H.E. Abdul Aziz Abdul Ghani	Prime Minister
H.E. Yahya H. Geghman	Deputy Prime Minister for Foreign and Economic Affairs
H.E. Abdullah Barakat	Deputy Prime Minister for Internal Affairs
H.E. Abdullah Alkorshomi	Minister of Public Works
H.E. Mohamed Gl-Gunaid	Minister of Finance
H.E. Abdul Karim El-Eryani	Minister of State of Development and Chairman of The Central Planning Organization
H.E. Hussain Almaqdami	Minister of Education
H.E. Ali Lutf Althour	Minister of Economy
H.E. Ahmed Abdo Saeed	Minister of State
Tilak Malhotra	UNDP Resident Representative
Other Government Officials and Staff involved in our projects	

PEOPLE'S DEMOCRATIC REPUBLIC OF YEMEN

H.E. Salem Rubai Ali	Head of State, Chairman of the Presidential Council (and Deputy Secretary of NFPO)
H.E. Ali Nasir Muhammed	Prime Minister, Minister of Defense and Minister of Education
H.E. Abdul-Aziz Abdul-Wali	Minister of Industry and Acting Minister of Planning

H.E. Fadhle Mohsen Abdullah	Minister of Finance
H.E. Muhammed Salih Muti	Minister of Foreign Affairs
H.E. Haider Abu-Baker al-Attas	Minister of Public Works
H.E. Mohammed Saeed Madhi	Minister of Trade and Supply
Ahmed Abdul Kadir	Director of Planning and Statistics, Ministry of Public Works
Yassin Nasser	Acting Technical Director, Ministry of Planning
Ahmed Obeid Fadhli	Deputy Governor, Bank of Yemen
Shamim Ahmed	UNDP Acting Resident Representative
Governor of Fifth Governorate	
Other Government Officials and Staff involved in our projects.	

ANNEX II

MR. McNAMARA'S VISIT TO YAR AND PDRY

Places Visited

YEMEN ARAB REPUBLIC

Sana'a and immediate surroundings

Southern Uplands Area (Taiz-Ibb)

Tihama Area (Wadi Zabid)

First Highway Project site

Hodeida

Marib

PEOPLE'S DEMOCRATIC REPUBLIC OF YEMEN

Aden

Second Governorate (area where iron ore is being explored)

Ryian

Mukalla (Highways II and IDA Fisheries projects located in this area)

Suywun (Fifth Governorate)