

## Socio-economic context and role of agriculture

Yemen is a lower-middle income country and is ranked the second poorest country in the Near East and North Africa region with 34.8 percent of the population living under the national poverty line.<sup>1</sup> Currently about 43 percent of the population is food insecure – just two percent less than in 2011.<sup>2</sup> The country's dependency on food imports further aggravates this situation.

Yemen's economy is heavily dependent on oil exports, representing about 90 percent of export earnings and income from oil production constituting 70 to 75 percent of government revenue. Agriculture is a vital sector in the Yemeni economy and is the main source of employment for about 37 percent of the population. Natural resource management and water consumption concerns are highly relevant for the agriculture sector. Of the 90 percent of available water used for agricultural production, 37 percent goes to the production of *qat*, an addictive cash crop.<sup>3</sup>

The dominant issues facing agriculture in Yemen are: low productivity, severe resource constraints (especially water scarcity), inadequate marketing systems, low human resources capacity, lack of infrastructure facilities and production technologies, and insufficient supply of inputs. Furthermore, the increased production of *qat* is overtaking production of food crops (see box). The role of government in the agricultural sector has been declining in recent years. Furthermore, other factors such as climate change, ethnic conflicts, and lack of security are becoming increasingly problematic. These constraints have prevented the agricultural sector from making a larger contribution to rural incomes, national GDP, and addressing the trade imbalance in food items.

Selected indicators		2007	2009	2012	
SOCIO-ECONOMIC	GDP (current billion US\$) *	21 5	24 5	36 6	
	GDP per capita (US\$) *	1 020	1 106	1 494	
	Agricultural value added (% of GDP) *	NA	NA	NA	
	Agricultural value added (annual % growth) *	(average 2007-2012)	NA		
		(2012)	NA		
	Total population (thousand)	21 182	22 230	25 569	
	Rural population (% of total)	70	69	63	
Agricultural labour force (% of total labour force)	41.7	39.8	36.7		
Human Development Index **	(2012)	0.458 (ranking 160)			
AGRICULTURAL PRODUCTION & TRADE	Per capita cultivated land (ha)	0.078	0.068	NA	
	Area equipped for irrigation (ha)	680 (2011)			
	Value of total agriculture production (current million US\$)	2 965	4 331	5 003 (2011)	
	Value of cereals production (current million US\$)	463	496	564 (2011)	
	Yield for cereals (hg/ha)	10 195	9 952	10 566	
	Cereal import dependency ratio (%)	(2007-2009)	82.5		
	Top 3 commodities	Production quantity	Sorghum; Mangoes (mangosteens, guavas); Potatoes (2012)		
		Production value	Meat (indigenous, cattle); Mangoes (mangosteens, guavas); Meat (indigenous, chicken) (2012)		
		Import quantity	Wheat; Sugar Refined; Chicken meat (2011)		
		Import value	Wheat; Sugar Refined; Chicken meat (2011)		
		Export quantity	Onion (dry); Bran of Wheat; Bananas (2011)		
Export value		Bran of Wheat; Mangoes (mangosteens, guavas); Fruit Fresh (2011)			
Top 3 trade partners	Import value	Brazil, Australia, USA (2011)			
	Export value	Saudi Arabia, Somalia, Egypt (2011)			
		Wheat; Sugar; Rice (2009)			
FOOD SECURITY & NUTRITION	Top 3 commodities available for consumption	Wheat; Sugar; Rice (2009)			
	Per capita food supply (kcal/capita/day)	2 098	2 109	NA	
	General (g) and Food (f) CPI (2008=100)	232 (g), 92 (f)	258 (g), 96 (f)	384 (g), 140 (f)	
	People undernourished (million)	(2008-2010)	7.6		
		(2011-2013 proj)	7.4		
	Proportion of undernourished (%)	(2008-2010)	32.5		
		(2011-2013 proj)	28.8		
	Global Hunger Index ^	(2013)	26.5 (Serious)		
Access to improved water sources (% of population) *		55	55	55 (2011)	

Sources: FAOSTAT; \*WB; \*\*UNDP; ^IFPRI (Accessed on 25 March,2014)

Note : Food CPI 2009, 2011: 2008=100

- 1 According to the World Bank, 46.6 percent of the population lives on less than US\$ 2 a day, and 17.5 percent of the population lives under US\$ 1.25 per day. World Bank, 2005; available at <http://data.worldbank.org/indicator/SI.POV.NAHC/countries/YE?display=graph>
- 2 WFP, 2014, WFP in Yemen: working to end hunger; available at <http://documents.wfp.org/stellent/groups/public/documents/newsroom/wfp263462.pdf>
- 3 WHO considers *qat* to be "seriously addictive drug".

# YEMEN

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Policy Decision Analysis



This activity is funded by the European Union under the Improved Global Governance for Hunger Reduction Programme

## 1. Government objectives in agriculture, food and nutrition security

The main policy frameworks governing agriculture and economic development in Yemen are the following:

- i. **The 3<sup>rd</sup> Five-year Socio-Economic Development Plan for Poverty Reduction (DPPR) 2006–2010** focused on improving the enabling environment for investment and stimulating economic growth, resulting in an annual average growth rate of 7.1 percent.
- ii. **The 4<sup>th</sup> DPPR 2011–2015**, identifies four priorities (i) stimulating economic growth and reducing unemployment; (ii) strengthening social protection; (iii) accelerating progress on the Millennium Development Goals; and (iv) enhancing good governance.

iii. **The National Agriculture Sector Strategy (NASS) 2012–2016** aims at raising domestic food production, increasing rural incomes and employment, and ensuring sustainability of the environment and natural resources.

iv. **National Food Security Strategy (NFSS) 2011–2015** states the following objectives: (i) to reduce food insecurity by one third by 2015, (ii) to ensure 90 percent of the population are food secured by 2020, and (iii) to reduce child malnutrition by one percent annually. To achieve these objectives, the NFSS set out a 7-Points Action Plan.<sup>4</sup>

## 2. Trends in key policy decisions (2007-2013)

### 2.1 Producer-oriented policy decisions

In general, the agricultural sector received a very small share of public spending (only 0.4 percent in 2007).<sup>5</sup> Also, limited government capacities disable the provision and development of innovative technologies in crop, livestock and fisheries sub-sectors, and the enhancement of producers' access to improved inputs and markets. However, based on the NASS's strategic priorities, the government is trying to put emphasis on rebuilding the public investment plan and increase public spending in agriculture.

#### *Provision of input subsidies*

The government has provided modest agricultural input subsidies such as fertilizers and seeds as well as diesel over the period 2007–2013. Moreover, the Ministry of Agriculture and Irrigation (MAI) is expanding cash crop cultivation; for example, providing modest support to coffee production programmes.<sup>6</sup> The Ministry collaborated with the Public Institution for Breeding of Improved Seeds (PIBIS) to distribute seeds and seedlings to farmers at reduced (or even symbolic) prices during the 2007–2013 period. Also, the government launched the National Programme for Production of Grain in 2007, as response to soaring prices and high dependence on food imports. One of its main functions is seed distribution and machinery support for smallholder farmers.

Concurrently, the Ministry of Finance has also transferred extra budget to PIBIS in order to compensate for the increasing price of seeds and fertilizers.

#### *Decline in credit allocated to small farmers*

In 2008, the Agriculture and Fisheries Production Promotion Fund allocated budget to the Agriculture Cooperative Credit Bank to be channeled in the form of soft loans to the National Programme for Production of Grain.

The Bank provides loans (short, medium and long) to small farmers; however, due to the Bank's policy of shifting towards commercial activities in 2009, credit allocation to small farmers has gradually decreased by 99 percent from 2005 to 2009.

#### *Focus on land policies to attract investment*

Although another previously adopted law limited foreign land ownership to 49 percent; in September 2007, the Yemeni Cabinet passed legislation allowing foreigners to acquire and own land in order to improve enabling environment and promote investment in the agricultural sector. Moreover, in 2008, the government approved a law for Land Registration based on international best practices. This legislation is an attempt to address land disputes which are a major hindrance to investment.

4 The 7-Points Action Plan for Achieving Food Security consists of: 1. Reform petroleum subsidies, 2. Improve the business climate, 3. Reduce *qat* production and consumption, 4. Improve food security risk management, 5. Implement the water-sector strategy, 6. Target public investment and improve service provision, 7. Launch high-level awareness campaigns. For more information, please see: <http://www.ifpri.org/sites/default/files/publications/yemennote1en.pdf>

5 IFPRI, 2012, *Beyond the Arab awakening: policies and investments for poverty reduction and food security*, Washington, DC.

6 These programmes also provide capacity development for coffee farmers and the ministry conducts specific research studies on coffee farming and markets, and facilitates farmers access to water and irrigation.

### BOX - Qat consumption and production

Qat is a mild addictive leaf that dominates life in Yemen; adult men spend extended afternoon hours chewing qat for a period lasting at least five hours.<sup>7</sup> Qat is also increasingly consumed by women and children. Qat represents about 10 percent of household budget, aggravating poverty and leading to undernourishment especially among children and women. Nevertheless, as qat is the predominant cash crop, it accounted for about 6 percent of GDP and one-third of agricultural GDP in 2007, qat also plays a vital role in rural income and employment.<sup>8</sup> Agriculture accounts for more than 90 percent of water use, of which around 37 percent goes to irrigate qat. Since diesel fuel is used to power the tubewell pumps that irrigate qat, fuel subsidies have encouraged qat farmers to pump more water for qat production; the diesel prices before subsidies reform were far below the world market level.



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Qat is a primary cash crop in Yemen, is commonly chewed fresh as a daily stimulant. Qat represents about 10 percent of household budget, and 75 percent of agriculture water goes to irrigate qat.

## 2.2 Consumer-oriented policy decisions

Food insecurity is a critical issue in Yemen: more than 30 percent of the population is undernourished. In 2009, a National Nutrition Strategy was drafted but information on this is scarce. Only in 2013 did the Cabinet issue a decree concerning necessary measures to address widespread malnutrition in the country. The government has taken various measures to ensure access to food; ranging from price control on basic food items to social safety net programmes. These programmes are heavily dependent on donor funding, which means their sustainability is questionable.

### Attempts to reform fuel subsidies

Fuel subsidies provided in Yemen were the highest in the Middle East and North Africa (MENA) region, representing about 20 percent of government expenditures in 2007, more than the total combined spending on education, health and social transfers.<sup>9</sup> The government was under pressure to reform its fuel subsidies, therefore it increased fuel prices by about 25 percent in 2010 as a first step.<sup>10</sup> This reform is expected to alter the production costs of economic activities in the short run, while freeing up substantial resources for the government that can be used for alternative spending.

### Proactive governmental role in food price control

Yemen phased out food subsidies in the 1990s. However, the government has taken a series of decisions to regulate the market and control prices of foodstuffs. In 2007, a list of fines was issued for violations in posting and declaring food prices. In 2008, the Minister of Industry and Trade delegated the responsibility of setting the price of bread to the municipality capital Sana'a. In 2010, the Ministry approved regulatory, legal and administrative mechanisms to deal with the counterfeited and expired goods. In addition, in 2011 a specialized prosecution office for industry and trade was established to prevent the manipulation of staple food prices and reduce business irregularities. A reduction of commodity prices to reflect the improvement of the Yemeni Riyal exchange rate against foreign currencies, was encouraged in 2010.

### Increased cash transfer programmes

The government, along with development partners, has increased the budget for social safety net programmes following the food crisis in 2007–2008 and the fuel reform in 2010.

The Social Welfare Fund (SWF) provides unconditional cash transfers, ranging from YER 2 000 (US\$ 9.3) to YER 4 000

7 University of Arizona, 1985, The "rational peasant" vs sustainable livelihoods: the case of qat in Yemen; available at <http://ag.arizona.edu/~lmilich/yemen.html>

8 World Bank, 2007, Yemen towards qat demand reduction, Report No. 39738-YE.

9 World Bank, 2011, Petroleum subsidies in Yemen: leveraging reform for development, Policy Research Working Paper 5577.

10 The increase was 15 percent for petrol, from 60 to 70 YER per liter (US\$ 0.2), and 14 percent for diesel, from 30 to 35 YER (US\$ 0.14).

(US\$ 18.6) per household per month, and are transferred on a quarterly basis through Post Offices, while in remote rural areas through SWF's district cashiers.<sup>11</sup> Removals of fuel subsidies in 2010 and inflated prices eroded the relative value of the transfer and many beneficiaries either rent high-cost transport or pay a middleman to collect their entitlements at the Post Office. SWF also implemented conditional cash transfers in 2008 in ten districts in cooperation with the European Union and the Ministry of Education, targeting families with school-aged children. The additional cash is tied to the sustained enrolment of their children in school.

The Social Fund for Development (SFD)<sup>12</sup> provides community based cash-for-work for the chronic and transitory poor through the Productive Safety Net Labor-intensive Works Programme (LIWP). This programme is implemented both in rural and urban areas; targeting poor individuals employed to undertake land clearance, terrace rehabilitation, etc.

The Public Works Project (PWP) aims to create job opportunities for skilled and unskilled laborers, in order to provide infrastructure service for the poor and deprived communities in remote areas.<sup>13</sup>

### **Emergency food aid programmes intensified and focus on nutrition**

Due to Yemen's high levels of food insecurity and limited agricultural production, several emergency food aid programmes were scaled up by development partners to address the food crisis and its aftermath.

The Yemen Economic Corporation (YEC) in coordination with WFP, implemented direct food distribution and supplementary feeding initiatives in 2007/08. WFP also supported the Ministry of Health and Ministry of Education from 2007 to 2011 to implement emergency food aid programmes:

- The programme with the Ministry of Health targeted pregnant and lactating women, children 6-24 months, malnourished children below the age of 5, and other vulnerable groups. The programme delivered a monthly take-home food basket with special food products fortified with micronutrients and minerals.
- The programme with Ministry of Education aimed at promoting enrolment and school attendance of girls at all grade levels. Local councils in coordination with schools delivered take-home rations as 'food-for-education'.

## **2.3 Trade-oriented policy decisions**

After 13 years of negotiations, Yemen signed the official accession protocol to the World Trade Organization (WTO) at the

end of 2013. Foreign trade liberalization had been at the core of the government's economic reform programme since the 1990s.

### **Promotion of foreign and domestic trade**

Foreign and Domestic Trade Acts were introduced in 2007 to accelerate the WTO accession process. The Foreign Act aimed to: (i) enforce supervision on foreign trade, development and advancement; (ii) import and export management on the basis of free trade; and (iii) promotion of export diversification. The Domestic Trade Act aimed at stabilizing supply of locally produced and imported goods, stimulating various trade sectors, regulating domestic trade according to the free market mechanism, and ensuring availability by encouraging construction of stockpiling infrastructure.

### **Government involvement in import restrictions and tariffs**

Yemen has maintained seasonal import restrictions on selected fruits and vegetables since 2010 to protect domestic producers. Where no restrictions apply, food commodities are subject to an additional duty of 35 percent over and above the ordinary tariff of 25 percent. These restrictions are expected to be lifted upon Yemen's full accession to the WTO.



*Water scarcity is one of the main constraints for the agriculture sector in Yemen. Of the 90 percent of available water used for agricultural production, 37 percent goes to the production of qat.*

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<sup>11</sup> SWF is the government's primary social assistance mechanism, it contributes to reducing poverty by increasing the access of poor communities to basic social and economic services, building the capacities of local partners, and empowering communities and local authorities.

<sup>12</sup> The SFD was established in 1997 and has similar objectives to SWF.

<sup>13</sup> PWP was established in 1996 under the supervision of the Ministry of Planning and International Cooperation (MOPIC) and funded by the World Bank.

### *Increase of government role in grain reserves*

The private sector controls the entire wheat import supply chain as the government privatized all public reserves back in the 1990s. The 2007/08 food crisis highlighted the vulnerability of Yemen to food price volatility in the world market. The food price surge in 2011, which led to riots in Yemen, provided a rationale for the government to have emergency physical stocks of grains that can be released at times of crisis.<sup>14</sup>

In this context, the government encouraged the establishment of grain silos and flour mills through the Domestic Trade Act. Furthermore, the government established a Food Council to oversee the stabilization of food availability and prices in the local market. In 2008, the government directed the Yemen Economic Corporation (YEC) to restructure and rebuild cereal silos. In 2009, the Parliament approved an agreement with the Islamic Bank to buy equipment to construct strategic grain silos with a budget of US\$ 21.25 million.

## 3. Emerging issues

The financial crisis in 2009 and the subsequent drop in oil prices had a devastating impact on Yemen, slowing economic growth almost to a halt, including agricultural growth.<sup>15</sup> This, coupled with the political turmoil of 2011, has driven the country to the brink of economic collapse; therefore, growth acceleration will be the key for Yemen to overcome deep economic crisis and reduce poverty and food insecurity.

### *Commitment to reform and improve livelihoods*

The transitional government of Yemen has recently been working with regional and international partners on "The Transitional Programme for Stabilization and Development (TPSD) 2012-2014". This programme along with the fuel subsidy reform, and the updated NASS (2013-2017) which has a new focus on agricultural investment, reflect the renewed commitment to reform and revitalize rural livelihoods.

### *Necessity to reorganize national priorities*

Yemen's agricultural sector has shrunk by an annual rate of 1.7 percent on a per capita basis since the year 2000,<sup>16</sup> mainly due to limited natural resources being inefficiently utilized for the expansion of *qat* production. This negative agricultural growth with widespread food insecurity calls for a reinvigorated strategy for agriculture in support of food security. The government has taken some important first steps towards this objective, and higher priority could be given to increasing the production of grains through intensification, diversification (shifting away from *qat* cultivation), more effective natural resources management, and implementation of an efficient programme for strategic grain reserves.

<sup>14</sup> During the 2011 crisis, between January and November, the price of wheat in Sana'a increased by 90 percent on average.

<sup>15</sup> IFPRI, 2010, Impacts of the triple global crisis on growth and poverty in Yemen; available on: <http://www.ifpri.org>.

<sup>16</sup> IFPRI, 2012, Beyond the Arab awakening: policies and investments for poverty reduction and food security, Washington, DC.



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This brief was prepared by the Food and Agriculture Policy Decision Analysis (FAPDA) team at FAO, with contributions and support of the FAO Regional office of the Near East and North Africa and FAO Country office. Information reported in this brief derives from the FAPDA Tool and the review of primary and secondary data sources.

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