

ESMAP Concept Note Form

(Max. 2 pages)

1. **Project Title:** Yemen Gas Market Development
2. **Region or Country:** Yemen
3. **Task Manager:** Franz Gerner, ECSIE
4. **Implementation Partners:** N/A
5. **ESMAP Strategic Area:** Energy Poverty and Access and Sector Reform
6. **Implementation Period:** The funds will be fully committed by September 2006 and disbursed by November 2006
8. **Project rationale and objectives:** Yemen's economy is heavily dependent on the oil sector which accounts for over 80 percent of total export revenues. It is expected that oil production from currently producing fields will steeply decline after 2010 and the Bank and IMF considers Yemen as a country under 'stress' from 2007. At the same time Yemen has substantial gas reserves and is in the process of building a Liquefied Natural Gas (LNG) facility to export gas. The revenues that are expected to be generated by the LNG project will only partially offset the decline in Government revenues. There is no domestic gas infrastructure and industry and households, including the poor, continue to use more expensive and more polluting fuel products to meet their energy needs. Yemen urgently requires a gas incentive framework to encourage gas utilization and to provide access to a relatively clean and cheap source of energy to domestic users.

The development of a natural gas market is particularly important for its potential to support the creation and growth of the domestic industrial sector, in particular gas to power, and to improve the living conditions of the Yemeni people, including the poor. The power sector, which runs on heavy fuel is highly indebted and lacks generation capacity and investment which causes frequent brown and blackouts throughout the country. Residential customers, including low income households tend to use more expensive (electricity) and/or polluting fuels (LPG, kerosene) to meet their domestic energy needs. Switching to natural gas would increase energy security, improve the financial position of the utility and ensure a reliable, cleaner and cheaper source of energy for residential customers, including the poor and low income groups.

The objective of the work is to create an incentive framework that will encourage the development of the upstream and downstream gas market and ensure access to natural gas to industry and residential load, including the poor.

9. **Expected outcomes:** The analytical work, which is being carried out in close cooperation with the Yemeni government, will investigate the obstacles to growth in the upstream and downstream gas sector and propose policies for overcoming these obstacles.

10. **Planned activities to achieve outcomes:** Advice on developing a gas incentive framework; capacity building in working group, analytical report that will function as a basis for energy sector policy

11. **Project linkage to national priorities, action plans, and programs:** Considering the crucial importance of developing the gas sector for Yemen's fiscal position as well as for providing a cleaner and cheaper source of energy for the domestic market the work program features in the upcoming Country Assistance Strategy (CAS) for the country.

12. **Stakeholders involved in project:** Ministry of Oil and Minerals, Yemen Gas Company, Ministry of Finance

13. **Implementation arrangement:** A working group has been established with representatives from the Ministry of Oil and Minerals, Ministry of Finance, Yemen Gas Company and the World Bank.

15. Other possible contributors/ donors and amounts: N/A