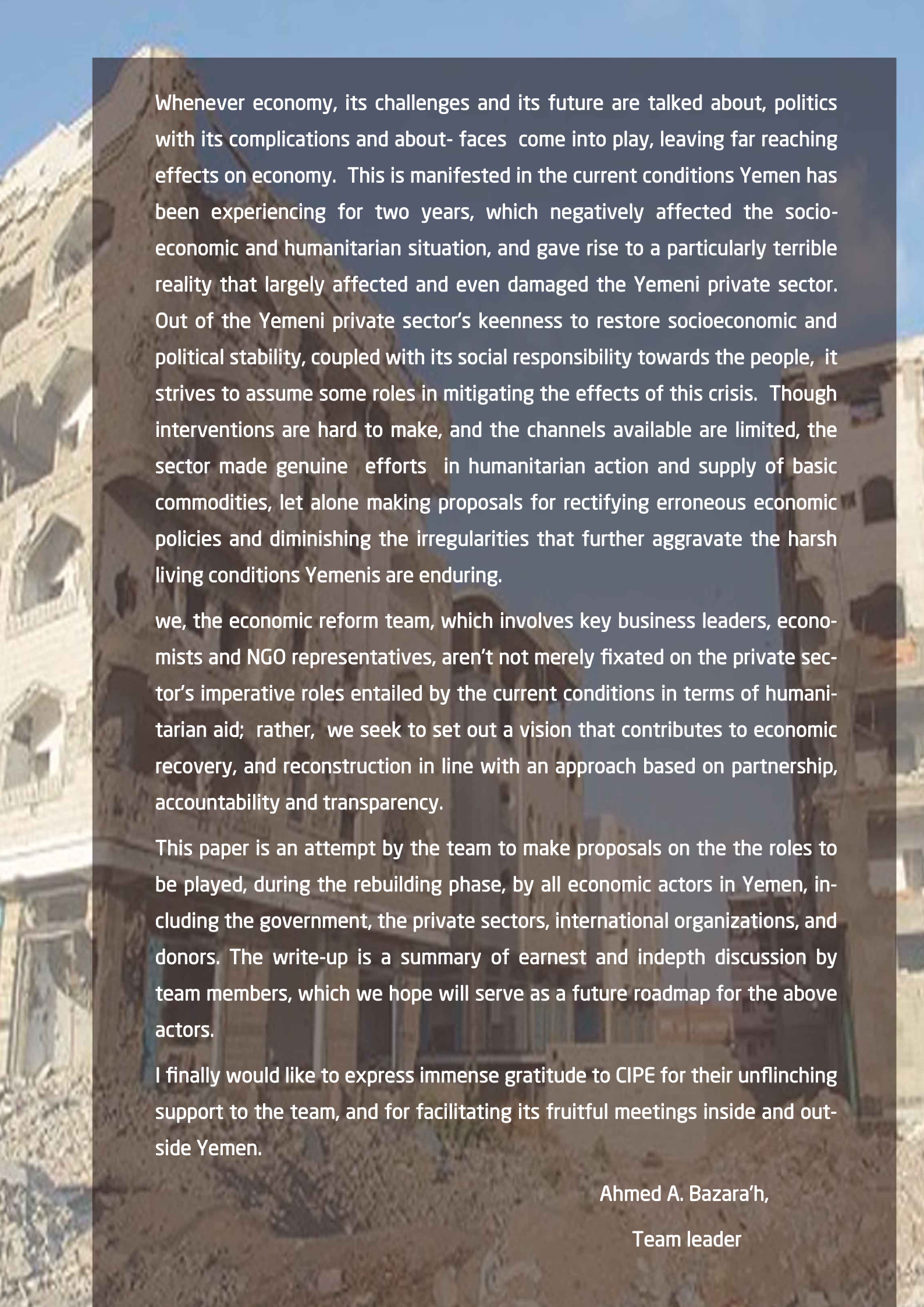


Rehabilitation & Reconstruction priorities

Policy Paper

Yemen

The background image shows a multi-story building that has been severely damaged, likely by conflict. The facade is crumbling, with many windows missing, leaving dark, hollow spaces. Debris is visible at the base of the building. The sky is a clear, pale blue. The text is overlaid on this image in a white, sans-serif font.

Whenever economy, its challenges and its future are talked about, politics with its complications and about- faces come into play, leaving far reaching effects on economy. This is manifested in the current conditions Yemen has been experiencing for two years, which negatively affected the socio-economic and humanitarian situation, and gave rise to a particularly terrible reality that largely affected and even damaged the Yemeni private sector. Out of the Yemeni private sector's keenness to restore socioeconomic and political stability, coupled with its social responsibility towards the people, it strives to assume some roles in mitigating the effects of this crisis. Though interventions are hard to make, and the channels available are limited, the sector made genuine efforts in humanitarian action and supply of basic commodities, let alone making proposals for rectifying erroneous economic policies and diminishing the irregularities that further aggravate the harsh living conditions Yemenis are enduring.

we, the economic reform team, which involves key business leaders, economists and NGO representatives, aren't not merely fixated on the private sector's imperative roles entailed by the current conditions in terms of humanitarian aid; rather, we seek to set out a vision that contributes to economic recovery, and reconstruction in line with an approach based on partnership, accountability and transparency.

This paper is an attempt by the team to make proposals on the the roles to be played, during the rebuilding phase, by all economic actors in Yemen, including the government, the private sectors, international organizations, and donors. The write-up is a summary of earnest and indepth discussion by team members, which we hope will serve as a future roadmap for the above actors.

I finally would like to express immense gratitude to CIPE for their unflinching support to the team, and for facilitating its fruitful meetings inside and outside Yemen.

Ahmed A. Bazara'h,
Team leader

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Introduction

Yemen is considered as the poorest country in Arab region and among the world least developed countries. It is ranked 160th out of the 187 countries in the Human Development Index with aggregate value for the human development indicators for 2015 of about 0.498. The average GDP declined to 2.8 % during the period 2001 -2013⁽¹⁾ which was below annual average population growth that of 3%. Poverty in Yemen became widely severe epidemic with 54%, according to recent indicators, and illiteracy rate reported 41%.

For decades, Yemen has been unable to mobilize the available resources to achieve sustainable growth due to the following factors: political instability, sectarian wars and soaring terrorism challenges, dysfunctional mimic institutional framework, limited FDI and weak infrastructure. Such structural hinders were sufficient to accelerate economic and social fragmentation.

The country has witnessed successive conflicts over the last decades, however the last one began in March 2015 was the worst in Yemen history. It turned Yemen into a regional and international battleground and has resulted in tremendous economic

and social difficulties. The KSA led alliance's airstrikes and the ground offensives have caused fatal casualties on civilians, mass destruction of public and private properties and huge influx of IDPs inside and outside the country; the blockade on the other hand imposed financial and commercial isolation on Yemen. Currently there are more than 18.8 million Yemeni in need for some kind of humanitarian assistance.

This policy paper will first provide a historical background of Yemen Economy, which end up with social, economic and institutional gradual collapse during 2015-2016 years. Then it aims to identify the severely affected economic sectors and proposes the most necessary intervention priorities to enhance the strategic economic sectors' recovery. The paper will finally propose a set of roles that the private, public and external development to support the economic recovery.

Overview of Yemen economic performance

The consecutive conflicts in Yemen even before the 2011 uprising drove the economy toward a deep recession. Yemen economy was suffering structural constraints that brought out the 2015-2016 economic collapse. Indeed, such catastrophe has ema-

(1) Central Statistic Organism, Annual Sensus Book, 2013.

nated primarily from and should be the natural output of economy with poor infrastructure, weak human capital, poor financing capacity, limited production capacity and unfavorable business environment for investment. It is clearly noticed in the trend of the following macroeconomic indicators achieved during three key distinct stages of years:

Pre 2011 economic phase (2006-2010)

Before the 2011 uprising, the structural barriers had sieged the GDP to reach a low level that does not promote sustainable development and growth. More insight summarized in followings:

- ♦ Weak and sluggish economic growth rate that averaged at 3.9% barely higher than a 3% ⁽²⁾ population growth rate which made it difficult for the economy to generate any developmental progress. With such low still declining GDP, substantial share of Yemenis were falling down into poverty. The modest estimation of the soaring poverty in Yemen indicated a rate of 42% (WB 2009), whereas other sources reported poverty

rate around 58%⁽³⁾ among Yemenis. Malnutrition rate was 32%⁽⁴⁾ as a result of poverty and the backbone was unemployment rate of 18.6% and 53% among youth (15-24)⁽⁵⁾.

- ♦ Service's sector dominated the economic activities constituting 49.2% of the GDP⁽⁶⁾. Oil and Gas accounted for 28% and 22.8% for the productive sectors (Agriculture, manufacturing and construction) of the GDP. The small contribution of the productive sectors adversely affected the economy ability to foster stable business activities, job creation and to provide food security for the people.
- ♦ Capitalism in Yemen refers to trade liberalization and the prime role of the private sector, although that role in the economic development process is not well defined considering the private sector performance which accounted of an average of 53% of the GDP during the period.
- ♦ Poor financial intermediation and limited role of the public finance in the development agenda prevailed in Yemen. The public revenues figures showed decline

(2) Central Statistic Organism, Annual Sinsus Book, 2013.

(3) UNDP Arab Human Development Report 2009

(4) Ministry of Planning and International Cooperation, MoPIC, The development requirements for enhancing state building and stability, 2010.

(5) Previous reference

(6) Previous reference

from 32.3% in 2006 to 22.9% in 2009 of GDP; and 62.2% the public revenue in 2010⁽⁷⁾ comes from the depleted oil and gas resources that make it unstable and unpredictable in response to international oil prices fluctuation. In the other hand, according to the budget reports, most of the public expenditure was current in nature while the importance of investment in the public expenditure relative to total public expenditure remained poor around 17.3% in average during the same period.

- ♦ Fiscal deficit accelerated to 9.1% of GDP in 2009, with an average deficit for the period 2006-2010 around 4.4 %, which compares unfavorably with the international benchmark⁽⁸⁾ for budget deficits as a percentage of GDP. In addition to public finance deficit expansion, the deficit risk increases considering the heavy reliance on inflationary sources i.e issuing treasury bills and borrowing from central bank; which contributes to macroeconomic instability and currency depreciation.
- ♦ The value of the Yemeni Rial depreciated by 8.4 % in 2010 and the living conditions of Yemenis deteriorated during the same period as the annual Inflation rate

reached double digits to record 11.3%.

- ♦ Financial sector played a weak role in the development process, as the total credit facilities decreased relative to the total financial resources available for the financial sector. The limited credit facilities provided for the private sector were mostly of for trade at the expense of the other productive sectors of the economy (agriculture, manufacturing and construction).

The transition phase economic performance 2012-2014

The political and security problems of 2011 (Youth Uprising), resulted in dramatic decline in economic, financial and monetary indicators. It also caused unprecedented deterioration of the Yemenis living conditions. GDP contracted by 12.7 %⁽⁹⁾, and the fiscal deficit reached 4.5 % of GDP, which was financed by inflationary sources. Balance of payments deficit reached 3% of GDP and inflation rate continues to go from bad to worse reaching 23% further depreciating the Yemeni Rials value ⁽¹⁰⁾.

The economy witnessed a slow and stable recovery after signing the GCC initiative in November 2011 and the establishment of the National Reconciliation Government,

⁽⁷⁾ Ministry of Finance, MoF, Statistical Bulletins, various edition.

⁽⁸⁾ The international benchmark for budget deficits is 3% of GDP.

⁽⁹⁾ World Bank, Yemen, Economic Prospects <http://www.albankaldawli.org/ar/country/yemen/publication/economic-outlook-fall-2016>

⁽¹⁰⁾ MoPIC, Transitional Program for Stabilization and Development (TPSD) 2012-2104

which result in improving some macroeconomic indicators as follows::

- ♦ A positive GDP growth rate of 2.4% and 4.8% in 2012 and 2013 were achieved respectively, which was attributed to government provision of business reactivation requirements for various economic sectors that led to acceptable level of security and economic stability. The development partners provided the government with huge support to achieve that positive progress.
- ♦ However, the political unrest and unresolved legacies between political actors surfaced in 2014, and the scattered clashes became a full-scale war in some governorates. With the political instability aggravation, the government reached a point of inability to assure the local market needs of fuel supplies for few months. All these factors led to public and private business retraction, which resulted in GDP contraction by 0.2 % ⁽¹¹⁾.
- ♦ A number of public economic activities were halted and some continued but relatively weak during the 2011-2013 and private sector could not capitalize on that opportunity and its contribution to GDP was close to the earlier figures of 56% ⁽¹²⁾. It is obvious that the huge imbalances within the Yemeni economic system and the limited role of the private sectors prevented achieving sustainable development in Yemen.
- ♦ Government fiscal deficit increased by 6.9 % ⁽¹³⁾ of GDP in 2013, as a result of the decrease in the public revenues along with the increase in current expenditure.
- ♦ According to the available data there was an improvement in the monetary indicators in another side, as exchange rate stabilized at 214.9 Yemeni Rials to 1 USD and the foreign reserves rose to their highest level, 5.6 \$ billion, in 2012 ⁽¹⁴⁾.
- ♦ Inflation rate dropped down to less than 10%.
- ♦ In conclusion, in spite of the political instability that limited government capacity during the 2012-2014, the economic performance showed better progress compared to the past years.
- ♦ The armed conflict erupted early 2015

War Time Economic Performance 2015-2016

(11) World Bank, the earlier reference

(12) Central Statistic Organization, Annual Census Book, 2013.

(13) World Bank, the earlier reference.

(14) World Bank, the earlier reference.

spread rapidly across number of Yemeni Governorates with devastating consequences on civilians. It became later a full-scale civil war with regional intervention, what was called Asefat Al-Hazm (decisive storm) for the support of the Internationally recognized government in Yemen, and as a result the economy fell into a deep inflationary recession for number of reasons:

- ♦ Most of the productive operations of the economy were almost halted due to the lack of power (electricity and fuel); fuel prices hiked spawning a black market for fuel.
- ♦ The absence of government to manage the economy resulted in the suspension of all public investment programs and most of the private investments.
- ♦ Total shutoff of oil operations resulted in stopping most of the public revenues.
- ♦ Suspension of the donors' financial support, except the humanitarian aid; and evacuation of all the foreign embassies and development Agencies.
- ♦ Private capital flowed out of the country seeking safer business opportuni-

ties.

- ♦ Intensive restrictions on human, capital and trade over sea and air mobility in and out of the country.

The World Bank estimated⁽¹⁵⁾ GDP contraction by 28.1%, Inflation was around 39.4% and available foreign reserves fell to only two months coverage of basic commodities imports during 2015. In the other hand, the Ministry of Planning and International Cooperation estimated GDP contraction by 34.6 %⁽¹⁶⁾. According to the Ministry of Finance report, fiscal deficit raised up to -15.4% in 2015 and -7% in 2016 relative to the GDP⁽¹⁷⁾, financed from inflationary source (Central Bank of Yemen CBY finance).

Exchange rate increased dramatically during 2015-2016 reaching for the first time a 310 Yemeni Rials for 1 USD. All terrible economic indicators records have spaced out soaring prices of basic commodities and services that worsened the Yemenis humanitarian situation and eased vulnerability of major Yemenis to poverty and malnutrition problems. The situation further deteriorated with the decision to relocate the Central Bank of Yemen to Aden as a war tactic.

(15) World Bank, the earlier reference.

(16) MoPIC, Economic & Social Updates Bulletin, 8th Edition, Oct. 2015.

(17) Ministry of International Planning, Yemeni Economic report (unpublished)

Private sector' operations were negatively affected and according to the available statistics⁽¹⁸⁾, many SMEs and female owned SMEs in particular suspended activities mainly because of the lack of power (electricity and fuel), and which was available in high prices in the black market. The surviving companies opted for other techniques to cope up with the situation i.e lay off employees, decrease salaries and benefits, and reduce working hours. The ongoing airstrikes and ground offensives targeted number of private businesses causing partial/total damage and creating a climate of business uncertainty.

The effects of the 2015-2016 war on Yemen

The regionally backed civil war that has been ongoing for almost two years in a number of Yemeni governorates causing significant economic damage which could be categorized in two parts. The direct costs of the totally/partly destroyed infrastructure and assets in one hand; and in the other, the indirect costs of the chance/opportunity that the economic sectors' missed "Lost opportunity".

In the absence of precise and comprehensive Damage Needs Assessment of the war

impact on Yemen and the inability of the relevant public institution to start one; there are some reports that need further verification for authenticity.

The OCHA⁽¹⁹⁾ reported in December 2016 that there were 47.9 casualties, 7.4 thousand were killed and 40.5 thousand injured. OCHA reported that there were 18.8 million people in need of some kind of humanitarian assistance, 10.3 millions of theme are in for immediate lifesaving assistance and 3 million of them are IDPs. In the health sector, 55% of health the facilities damaged, 17% of them were not functioning and 38% were partly functioning. Regarding education sector, 1,600 schools were damaged, 15% of them were totally destroyed, 73% were partly damaged, 10% are used as a shelter for the IDPs and 2% are occupied by militias⁽²⁰⁾.

The warring parties targeted the infrastructure causing a substantial destruction and according the unpublished Disaster Needs Assessment report by the World Bank the damages estimated cost of \$19 billion. The ground offensive as well as the intensive air strikes targeted and destroyed totally or partly roads, bridges, ports, popular ancient and tourist site, public and private properties.

(18) MoPIC, Economic & Social Updates Bulletin, 11th Edition, Feb. 2016.

(19) OCHA 'Yemen Humanitarian snapshot 'October 2016.

(20) these numbers are underreported and likely higher

Some of the official reports⁽²¹⁾ anticipated economic the costs of suspending the oil and gas operation of approximately by 4.1\$ billion in 2015. In addition to that there is a direct loss resulted from shelling Aden Refinery, destroying 90 home gas tanks, damaging to Ras Eisa Oil seaport and to Hodeida petrol export terminal and other the Ministry of Oil facilities.

The Ministry of Electricity reported huge losses⁽²²⁾ during 26 March 2015 - 16 March 2016 of about 2.2\$ billion; 1.7\$ billion of which in the area of foreign funded projects, 300\$ million indirect trade loss and 200\$ million as the damages to the electricity networks, power stations and the shelling of the ministry building and stores.

In the other hand transportation sector suffered the most in direct and indirect economic losses as a result of the ongoing war. The airports, seaports, highways and bridges are partly or totally damaged. The enforced a maritime and air blockade resulted in additional cost and suffering to Yemenis.

The private sector also has suffered significant losses due to the war, as it dominates various economic activities in Yemen with the exception of the oil and gas sector and other small public sectors' dominated activ-

ities. According to a public report⁽²³⁾ the GDP was contracted by 9\$ billion in 2015, assuming the achievement of annual growth rates equal to the years before the war. The wholesale trade, the restaurant and hospitality industry incurred huge losses of about 18.2% of the total loss costs, or about \$ 1.6 billion at constant prices. Then comes the losses of transportation, storage and communications sector of about 16.1%, the construction sector by 11.5%, finance, insurance and real estate by 9.6%, agriculture and fishing 9.4% and the manufacturing industry by 8% of the total reported losses.

As far as the accumulated costs is concerned, the private sector suffered almost 73% of the total losses from the GDP during 2015, of up to \$ 6.6 billion. If the cost of the destroyed properties are added i.e homes, industrial, commercial, and agricultural institutions and the transportation vehicles, the total losses of the private sector will certainly double, let alone the costs of the 2016 damages.

On another hand, Small and Micro Enterprise Promotion SMEP, in cooperation with the UNDP⁽²⁴⁾ conducted a survey on the impact of the Yemeni crisis on the private

(21) MoPIC, Economic & Social Bulliten, 14th Edition, May 2016

(22) Ministry of Electricity & Power, Power Sector's Direct and Indirect Damages and Losses Report, 21st March 2016.

(23) Mr. Nabil Al-Tairi, Estimating the economic and social losses during war and conflicts, 2011-2015.

(24) UNDP, Small& Micro Enterprise Promotion Service- Rapid Business Survey: Impact of the Yemen Crisis on Private Sector Activity>

sector. The survey found that 34% of the SMEs were the most affected compared to 17% of large companies only affected by the conflict. The survey also reported that the service sector was the most affected sector with 35% of the relevant enterprises reported closing their business operations.

Governorate wise, 95% of private sector enterprises partially or totally damaged in Aden and Taiz. From the perspective of the intensity of the damage to the private enterprises, 43% of the total estimated cost of the damage was in Saada. On the other hand, the survey results indicated that the vast majority of enterprises, 73% did not have access to finance since the outbreak of the war and only 14% of enterprises managed to have credit facilities.

Without doubt we could conclude that lack of state void to manage the economy during 2015-2016, with the adversaries on the ground (legitimate government, de facto rulers, resistance leaders, tribal leaders..), resulted in deteriorating the economic situation and some of the consequences are as follows:

- ♦ The oil and gas operations and export stopped depriving the national budget from the major source of revenues that

would have prevented the total economic collapse and the inability to pay the public staff salaries and the contractors' dues.

- ♦ The challenge grounds between the warring parties recently targeted the roles and responsibilities of the Central Bank of Yemen CBY, as one of the war tactics. Relocating the CBY from Sana'a to Aden will only contribute to worsening the economic and humanitarian situation. It will also contribute to depreciating the value of the currency - now 310 Rials/ 1 USD-, create domestic currency liquidity crisis, and deplete the foreign currency reserves to reach less than 1\$ billion⁽²⁵⁾ with the disastrous consequences it will cause to the private sector and Yemenis.
- ♦ The ongoing conflict negatively affected the local and foreign trades spawning a black markets for currencies, basic commodities provided by the humanitarian actors, fuel and cooking gas. In addition, millions of dollars are spent on imports of goods that are below the standards and pirated trademarks mainly in the area of solar energy to meet the public electricity needs.

(25) - MoPIC, Economic & Social Updates Bulletin, 20th Edition, Nov. 2016.

- ♦ The boom of the informal and illegal economic activities of smuggling, tax and customs' clearance at the expense of the formal activities, which stimulated the local capital to flow overseas.

All the factors listed above resulted in deepening the economic problems and will have consequence that is more painful on the economy in the future.

The Policies and Priorities of the future interventions

The previous review of sectoral losses and the macroeconomic indicators reflected the grievances imposed on fragile in nature economy, and it will be even far worse if we consider the cost of the subsequent social and psychological traumas that stressed Yemenis' life as of this war. As the war continues, the costs are on the rise.

Despite the public rhetoric of warring parties on their intentions to compromise and make peace, their moves and actions suggest otherwise. As a result of this vague situation, there are two scenarios: the ongoing war continues or the adversaries reach a deal and form a national reconciliation. Below is the description of the two scenarios and the relative recommended interventions.

Scenario One: Ongoing War Continues

This scenario is the worst for Yemen economically and from a humanitarian perspective. If the war continues what is left of the infrastructure will be destroyed, more economic losses, skyrocketing poverty and unemployment rates and will ultimately result in famine. The war casualties will also rise in the absence of proper health services, and the IDPs' number will increase that in turn will create a socioeconomic neglect and promote hatred and terrorism.

The reconstruction costs will increase dramatically and in it will be difficult to find the required technical and human resources needed for the reconstruction. There are a number of policies and priorities for intervention addressing the humanitarian and socioeconomic problems as follows:

⇒ Enhance the National Economy impartiality and support the Livelihoods for Yemenis

- Ensure the warring parties do not target what is left of the infrastructure and economic institutions.
- Ensure the flow of the basic com-

modities and services from and to Yemen and ease the air and maritime inspection procedures.

- Support the rural and urban development programs.
- Establish safe corridors and zones to ensure the smooth delivery of the humanitarian support and the safety of the people in need.

⇒ **Improve the living conditions especially for the vulnerable groups:**

- Provide the humanitarian aid i.e food, drinking water and cash assistance for the people in need.
- Arrange for emergency support for the malnutrition cases.
- Ensure the provision of the basic needs and services for Yemenis i.e fuel, cooking gas, water and electricity.
- Provide mobile medical teams for the areas with damaged health facilities.
- Strengthen the cooperation between the humanitarian actors on the ground (local community, NGOs and INGOs), to reach the

vulnerable in an effective and efficient manner.

- Support the implementation of the latest Humanitarian Response Plan in coordination with the donors.
- Support the implementation of the latest Humanitarian Response Plan in coordination with the donors.

⇒ **Support the private sector efforts to cope with the war conditions**

- Provide the needed power supplies for the businesses' operations and allow the private sector to import its need of fuel ensuring it will not dwindle the foreign reserves and depreciate the local currency.
- Support labor-intensive programs, Microfinance, youth and women employment initiatives through Assets Leasing and Business Incubators models.
- Support the private sector efforts to draft Risk Management Strategy of its own.

- Ensure the flow of the foreign trade transactions and rehabilitate the war-affected ports to resume commercial operations.
 - On the institutional priorities in this scenario, Yemen may establish National Supreme Relief Authority to fill the current gap and lead the scattered humanitarian efforts of the actors on the ground, which is sometimes redundant and uncoordinated. This Authority will include the government, private sector, NGOs, INGOs and donors and shall monitor and evaluate the humanitarian action efforts.
 - The humanitarian interventions shall target the war zones, the areas of high poverty rate and the remote inaccessible areas that need food and medicine.
- ciliation and establishment of a unity government. The regional and international support will be vital for the government efforts in restoring stability.
- In this scenario, there are a number of proposed political-economic, security and social interventions to strengthen the capacity of government to be able deliver the public services of health, education and security to all citizens and restore public confidence.
- This scenario will focus on the priorities relevant to restoring the state role in the economic, political and security aspects. Part of the priorities shall be justice, employment, services provision; in addition to the other institutional reform priorities necessary to promote economic recovery.

⇒ **Political and security priorities to restore the state control and ability to serve public:**

- Cessation of war, hostilities and others forms of violations to Human Rights and ensure the troops are back to their camps and militias are back to their original governorates.
- Launch a new political process with a clear timeframe and milestones that starts with establishing a National Unity Government

Senario two: End War and make peace

This scenario assumes the UN and the international and regional actors' manage to broker a peace agreement between the warring parties, which will lead to form a recon-

and ends with the casting votes on the new constitution and the presidential and parliament elections.

- Combat the Illicit trade in Medium and Heavy Weapons and disarm Militia of these weapons, which shall be all in the government possession.
- Activate Yemen Executive Mine Action Center and support the clearance the landmines and unexploded ordnance off the conflict areas.
- Reform the security institutions and solve the security issues at the localities capitalizing on the existing social structures and norms.
- Establish accountable institutional procedures to address the Transitional Justice requirements to redress the human rights abuse and implement the Transitional Justice Law.
- Activate the Role of Governance especially on the corruption cases.

⇒ **Humanitarian and Reconstruction Priorities:**

- Conduct a comprehensive Damage Needs Assessment and draft a reconstruction plan, which shall consider the past donors' pledges for Yemen.
- Rehabilitate the damaged infrastructure as well as the public and private institutions. Priority shall be given to the education, health, roads, electricity and water supplies' sectors; as well as for encouraging the students, involved in the war to go back to schools and universities.
- Link relief, rehabilitation and development (LRRD).
- Provide the vulnerable groups with the needed humanitarian assistance (Cash or Voucher programs) through the National Supreme Relief Authority.

⇒ **Stimulate Economic Growth and livelihoods:**

- Reactivate the halted economic operations i.e oil, gas and electricity to help restore economic

growth.

- Diversify economic activities by utilizing the fisheries, agricultural and tourism resources.
- Adopt an encouraging macroeconomic policies (fiscal, monetary and trade) to improve the business environment and attract investment, which will help achieving high and sustainable growth rates; and improve the indicators relevant to fiscal deficit, inflation, exchange rates, foreign reserves and trade balance.
- Focus on the labor-intensive programs.
- Help the private sector access to finance and rehabilitate their destroyed and damaged institutions and properties.
- Campaign for more foreign financial support (credit facilities, grants and technical support) to finance the reconstruction and rehabilitation programs.
- Provide support for the SMEs and youth and women business initiatives.

⇒ **Improve the business environment and improve the Public Private Partnership PPP,**

- Improve the investment infrastructure to provide the basic services for the private sector's activities.
- Support the small industries and businesses through business incubators, networking with successful local and regional initiatives to help mitigate poverty.
- Launch the PPP Law and ensure the availability of institutional capabilities to implement it.

Based on the above we propose establishing the following institutional frameworks:

- * The National Supreme Relief Authority (discussed in the first scenario).
- * Yemen International Support Fund (Multi-Partner Trust Fund), a pooled financing mechanism for all the support for Yemen (credit, grants). The Fund reallocates the financing into the various sectors according to an approved reconstruction plan by the government. This mechanism will help the government to overcome the earlier encountered pledges' problems i.e the long time spent in real-

location and disbursement. The Fund could be supervised by an international financial institution i.e World Bank.

* Bureau for Reconstruction and Development, which will perform the following tasks:

- ♦ Draft the reconstruction strategy to address the needs of the war affected areas and implement it.
- ♦ Develop mechanisms and standards for its relevant Executive Units in the different governorates or sectors.
- ♦ Supervise the reconstruction projects i.e preparation, implementation and monitoring.
- ♦ Coordinate and communicate with the relevant public institutions and local authorities of the war-affected areas on the implementation of the reconstruction efforts.
- ♦ Coordinate the reconstruction related activities i.e meetings and workshops, etc...

The reconstruction efforts requires close coordination between the political-security issues in one hand and the socioeconomic

issues in the other. In this respect, two parallel approaches shall progress together:

The political-security dimension:

It focuses on peace building and reconciliation to promote greater understanding and mutual trust between the warring parties. The actors will draw the lines of the Transitional Period with a clear timeframe and agree on the relevant issues i.e the regional governance and the elections. On the security side, efforts shall be dedicated to disarmament - of medium and heavy artilleries -, demobilize, and reintegrate the militia into society - some of them could be admitted to military conditional upon having the resources to pay for their salaries-.

The Socioeconomic dimension:

The focus here will be on developing a Compensation Scheme for the conflict victims, rebuilding the damaged infrastructure and for the early recovery and livelihoods assistance. The Scheme will support Micro-finance Programs to mitigate poverty and employment and promote economic growth in partnership with private sector the civil society.

It is crucial to maintain proper management, integrity, and accountability principles throughout the reconstruction phases as the international experience shows that Corruption did take place during reconstruction process i.e Lebanon, Iraq and Democratic Republic of Congo.

The Supportive Role of the Development Partners

The current socioeconomic and political transformations proved that effective development is the result of cooperation between the government in one hand and the private sector and the civil society in the other with the help of the international support.

As a result of the ongoing conflict that started years back, Yemenis are left with no effective ruling system to provide their basic economic and social needs; and the development partners are in need to work together to create the environment for peace and inclusive development than any time before.

The primary role of the government in the recovery and reconstruction - planning, secure funding and necessary technical and administrative capabilities - is to implement

the reform policies, which needs to be complemented by the private sector, the civil society and the international donors.

In this respect, there are a set of recommendations for the role of each one of the development partners in the reconstruction and recovery phase as follows:

The role of the Private sector

The private sector plays an important role in the economic development of Yemen as a key driver of growth and employment generation through fostering local and foreign trade and other economic activities during conflict.

A number of potential interventions have to take place to address the private sector development constraints whether it emanates from the sector itself, from the business environment or relevant to the government policies.

Learning from the international experience ⁽²⁶⁾ the private sector played vital role to promote economic development and peace in fragile and conflict-affected environments. In Sri Lankan Civil War, members of the Chambers of Commerce contributed to the post-conflict peace building, implement-

(26) The role of the private sector in fragile and conflict-affected states, World Development Report, July 2010 (updated April 2011).

ing peace campaigns throughout the country that promoted initiatives between Muslim, Sinhalese and Tamil businesses, as well as policy advocacy.

In Mozambique after the war came to an end, the private sector investment contributed to peace building which restored confidence in the country's economy, provided the basic commodities to the market and attracted foreign investors.

In Afghanistan, the IMF and SIDA set up a Fund to stabilize the financial sector and mitigate the rising inflation rate. The finance provided for the Central Bank of Afghanistan promoted also the microfinance sector outreach.

The Afghan First policy⁽²⁷⁾, which was also a nonbinding commitment by donors to use locally produced goods through the local suppliers whenever possible, promoted the private sector and materialized in over 1\$ billion in new spending in the local economy, creating tens of thousands of jobs.

Based on the above the private sector role is important in the reconstruction and development process considering the huge investment opportunities available for them. The roles that the private sector could play as follows :-

- **Roles in partnership with the government and the other development actors:**
 - * Contribute to the peace building process, which is a milestone to stabilize the economic and mitigate poverty in all over Yemen.
 - * Participate in developing the economic policies, the reconstruction and development plans and in the International Cooperation Committees' coordination efforts.
 - * Participate in the development and reconstruction of the infrastructure based on the PPP Structure and Business Models (Management contract, Leasing and Financing).
 - * Participate with the government and the donors' efforts to develop Joint Financial Mechanisms aims at extending credit to Small and Medium Enterprises and the Business Incubators' Programs, which will help youth and women initiating their own businesses.
 - * Propose innovative models to promote Small and Medium Enterprises through synergies with local businesses and relevant external

(27) Scott Gilmore, Peace Dividend Trust, email exchange of 12 February 2010

networks.

- * Private sector on the other hand must ensure tax and customs' fees consistently paid to the government to be able to implement the reconstruction and development plans.

Roles exclusively performed by the private sector in relation to investment and employment creation.

- * Work on the return of the flowed capital back to the country, which will contribute to peace achievement and build confidence on the economy.
- * Supply the reconstruction phase local and foreign requirements and implement reconstruction projects directly or indirectly with regional and international companies.
- * Offer employment opportunities for youth especially those involved in the conflict.
- * Support the application of Corporate Governance principles on their own companies to make them able to survive the competitive business environment. .

The role of the donors and INGOs

The donors' (countries, International Agencies) are a primary partner to Yemen. In addition to their role as a support providers they played a political role after the 2011 uprising, in which they brokered an agreement, GCC Initiative, between the regime and the opposition. The Gulf countries, the Security Councils' member states, and other states with interest in Yemen affairs drafted the agreement and they later referred to as the 18th Group backing the implementation of the Initiative and its Mechanism in the Transition Process.

Despite all the political settlement efforts, the political adversaries in Yemen engaged later in a confrontation, which turned into a civil war with a regional military intervention. The donors' community including the Security Councils' member states and the International Agencies (UN, UNDP, WB, and IMF) are still considering Yemen as an important partner and they work to end the carnage and lead the country back into political settlement and economic development.

The regional states, other countries and the development agencies could be a strategic partner for Yemen's Peacemaking and resuming the development process based on a reconciliation between the warring

parties. The partners could perform the followings: :-

- ♦ Mount funding and political incentives and pressures on warring parties to reach peace and reconciliation. They could declare an increase in their funding for Yemen reconstruction and their intention to provide refuge for the warlords as an incentive; and they could threaten sanctions, war crimes on the defiant parties and they may threat aid suspension.
- ♦ Direct support for the reconstruction and economic recovery which will promote peace building and stability in Yemen and the interventions could be in the form of the followings:
 - * Support the reconstruction phase through financial and technical assistance to help Yemen overcome the negative consequences of war, compensate, and rehabilitate the victims.
 - * Ensure that the Development Agencies are back and operate in Yemen to provide the needed technical assistance for Yemen.
 - * Adopt Donors' Direct Implementation Mechanism, where the donor contracts the implementing partner directly according the administrative and financial procedures approved by the local authority. This model will take less time in implementation than other options.
- * Fund the programs of the reliable local development institutions i.e the Social Fund for Development and the Public Work Project. Both have reliable implementation, planning, management and monitoring mechanisms that meet the donors' requirements.
- * Increase the capacity of the local communities' i.e private sector and NGOs by contracting them to implement the development projects in their localities.
- * Lift the restrictions imposed on the Yemeni banks and restore relations with the regional and international financial system to enable banks to resume their role in the economy.
- * Direct the assistance through the government channels to harmonize Yemen national development priorities with these of the donors and facilitate pledges' allocation

and disbursement. A Trust Fund could be established for all donors and development agencies pledges.

- * Contribute to designing development policies to strengthen democracy and governance principles and monitor implementation. And participate in developing a comprehensive reconstruction plan in coordination with the other partners.
- * Coordinate with the government in the design and implementation of projects to increase the government ownership and improve the

public institutions capacity in designing, implementing and monitoring projects implementation.

- * Reactivate the Friends of Yemen Group's role to support Yemen and convene consultative meetings with the government and the political actors to coordinate the support efforts and prevent the conflict recurrence in the future.

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