



RECONSTRUCTION AND RECOVERY IN YEMEN: RECOMMENDATIONS FROM THE DEVELOPMENT CHAMPIONS

EXECUTIVE SUMMARY

Nearly five years of conflict in Yemen have created a humanitarian catastrophe that has brought the country to the brink of famine. The economy has collapsed and fighting has ravaged the country's infrastructure. The reconstruction and recovery of Yemen will demand rebuilding the economy, restoring state institutions and infrastructure and repairing the social fabric. As yet, no official, donor-led, comprehensive reconstruction process is underway.

The Development Champions emphasize that reconstruction and recovery efforts must begin immediately, even while the conflict is ongoing. Urgent humanitarian interventions should be linked to Yemen's long-term economic recovery. The reconstruction of Yemen should aim to transform the country, and not only to restore the status quo ante. Yemenis and local institutions must be involved in this process from the planning stages to ensure legitimacy and local ownership; ultimately, local actors will be responsible for implementing these plans.

With these factors in mind, the Development Champions held in-depth discussions to develop recommendations and guidelines to ensure the reconstruction and recovery of Yemen is a comprehensive, effective process that has a long-term positive impact. This policy paper presents those recommendations. They include measures to link immediate humanitarian interventions to Yemen's long-term economic recovery; mechanisms to address fiscal challenges and enhance social protection; guidelines to create new jobs, rebuild infrastructure and strengthen the rule of law; and strategies to enhance local governance and local inclusion in the reconstruction process.

This policy brief was prepared by DeepRoot Consulting, in coordination with the project partners the Sana'a Center for Strategic Studies and CARPO – Center for Applied Research in Partnership with the Orient.



INTRODUCTION

The conflict in Yemen has created the worst humanitarian crisis in the world; this has been exacerbated by the devastation of the country's economy.¹ As the conflict approaches its fifth year, fighting has damaged state institutions and destroyed physical infrastructure, including schools, hospitals, road networks, businesses and homes. The state's provision of basic services such as health care, education, water and electricity, was weak prior to the conflict, and these services have deteriorated further during the war; in addition, the state has not paid regular salaries to its civil servants since 2016. The social fabric has also been severely damaged.

The conflict has driven the collapse of Yemen's economy and created multiple challenges for the country's banking and financial sectors. The country's gross domestic product has contracted by 50 percent.² The Yemeni rial has lost more close to two thirds of its purchasing power, relative to the US dollar, since March 2015.³ The administration of the Central Bank of Yemen has been divided across frontlines since September 2016. The Yemeni government has been reliant on a \$2 billion deposit provided by Saudi Arabia in January 2018 for its foreign currency reserves, with little apparent vision on how to proceed when this runs out. Yemen's primary capital-generating sectors are not functioning at capacity, and the state has not been able to resume effective revenue collection.

While there have been discussions about the reconstruction and recovery process in Yemen, no official donor-driven, coordinated, comprehensive response has begun. The World Bank has been developing a reconstruction and recovery blueprint, but seems to have ended this effort without tangible results. Saudi Arabia and the United Arab Emirates launched the Yemen Comprehensive Humanitarian Operations, which included minor road reconstruction. Riyadh has since announced the Saudi Program for Reconstruction, which appears to be ad-hoc with short-term interventions, limited to areas under the control of the internationally recognized Yemeni government.

The Development Champions emphasize that reconstruction and recovery efforts cannot wait until the conflict ends. They held in-depth discussions about the needs and demands of an effective reconstruction process in the Yemeni context and developed the following set of guidelines and recommendations to approach the reconstruction of Yemen.

1) "Restoring Central Bank Capacity and Stabilizing the Rial," *Rethinking Yemen's Economy*, February 8, 2018, accessed February 21, 2019, http://sanaacenter.org/files/Rethinking_Yemens_Economy-policy_brief_2_en.pdf.

2) "Yemen's Economic Outlook - October 2018," *World Bank*, October 3, 2018, accessed February 8, 2019, <http://pubdocs.worldbank.org/en/547461538076992798/mpo-am18-yemen-yem-9-14-kc-new.pdf>.

3) Farea al-Muslimi, "Revitalizing Yemen's Banking Sector: Necessary Steps for Restarting Formal Financial Cycles and Basic Economic Stabilization", *Sana'a Center for Strategic Studies*, February 15, 2019. Accessed February 21, 2019. <http://sanaacenter.org/publications/analysis/7049>.

1. Addressing Urgent Humanitarian Needs

Among Yemen's most pressing humanitarian challenges are widespread food insecurity and an ongoing cholera outbreak. Conflict heightens the threat of famine, creating food shortages and reducing the ability of Yemenis to buy food. Fighting has also damaged sanitation infrastructure and interrupted health services, compounding the country's cholera epidemic.⁴ The Development Champions highlight that these crises are linked to broader economic challenges.

- The Development Champions recommend that anti-inflationary measures must be part of any food security strategy. Rampant inflation exacerbates food insecurity in Yemen: The depreciation of the Yemeni rial increases the cost for local importers to bring food into the country and makes basic staples costlier for Yemeni households.
- The Development Champions emphasize that any humanitarian interventions must clearly link immediate needs to a plan for lasting economic growth. The Development Champions suggest that such links could be fostered by encouraging regional and international organizations to source goods for aid and development assistance from the Yemeni private sector. This would help to create jobs, improve service delivery and increase Yemen's economic output. Even when addressing urgent needs such as humanitarian aid and food security, long-term economic recovery must be a priority and respective measures should be incorporated in short-term assistance.

2. Address fiscal challenges

Yemen's economy has contracted by an estimated 50 percent cumulatively since March 2015.⁵ The economic crisis has led to widespread unemployment and an increase in operating costs across sectors.⁶ It has sharply shrunk government revenue and services, and has led to the suspension of civil service salaries.⁷

- The Development Champions recommend that the oil and gas sector should be supported as production restarts; increasing production will contribute to economic growth and could help to cover the costs of reconstruction. Although several Development Champions argue that the oil and gas sector should not be considered the sole key to Yemen's future development, it will likely be an important source of jobs and revenues in the short and medium term.

4) "Yemen: 2018 Humanitarian Needs Overview," *United Nations Office for the Coordination of Humanitarian Affairs (UNOCHA)*, December 4, 2017, accessed February 21, 2019, <https://reliefweb.int/report/yemen/yemen-2018-humanitarian-needs-overview-enar>.

5) World Bank, *Yemen's Economic Outlook* - October 2018, 1.

6) "Yemen's Economic Outlook - October 2017," *World Bank*, October 11, 2017, accessed August 3, 2018, <http://www.worldbank.org/en/country/yemen/publication/yemen-economic-outlook-october-2017>.

7) Noah Browning, "Unpaid State Salaries Deepen Economic Pain in Yemen's War," *Reuters*, January 26, 2017, accessed December 7, 2018, <https://www.reuters.com/article/us-yemen-security-salaries/unpaid-state-salaries-deepen-economic-pain-in-yemens-war-idUSKBN15A1WW>; Mohammed Yahya Gahlan, "No Light at End of Tunnel for Yemen's Economy," *Al-Monitor*, March 8, 2018, accessed December 7, 2018, <http://www.al-monitor.com/pulse/originals/2018/03/yemen-war-houthis-economy-central-bank-salaries-government.html#ixzz5NPkFYhwg>.

- Although the Development Champions call for financial assistance, they caution against a sudden influx of external assistance to cover fiscal shortages. The Development Champions note that an injection of recovery funds may produce market distortions such as inflation or price hikes. Accordingly, the Development Champions suggest stabilizing the Yemeni rial and emphasize that this must be a priority of the Central Bank of Yemen (CBY). The Development Champions also suggest that external funds should be funneled through the CBY in order to bolster the bank’s foreign reserves.
- With regard to the payment of civil servant salaries, the Development Champions emphasize that all salaries should be paid — including military salaries. The Development Champions note, however, that the budgetary burden of salaries for military personnel in Yemen is constantly increasing. They argue that any intervention should directly address the significant and growing burden of military salaries on the Yemeni budget and the effect this will have on the larger economy.

3. Providing Social Protection

The ongoing conflict has worsened the state of Yemen’s already weak education system and health facilities, while undermining social protections for vulnerable parts of the population.⁸ Looking ahead to potential reconstruction and recovery efforts, the Development Champions emphasize the need for inclusive social programming. Recovery and reconstruction interventions should target all members of a community, including children, youth, and women.

- The Development Champions highlight that education will provide a strong basis for stable reconstruction: it ensures that future generations of Yemenis are able to take an active part in national rebuilding efforts. As such, the Development Champions caution against prioritizing other sectors over education. Rebuilding damaged schools must be accompanied by plans for more significant and comprehensive investments in education.
- The Development Champions suggest the establishment of empowerment programs to prepare school leavers and college students to enter local and regional job markets, especially in neighboring Gulf countries. They suggest that, in order for training institutions to reach their full potential, the Skills Development Fund should be restructured to collaborate with the private sector. This fund could fill the skills gap between education and job market requirements to provide students with the necessary skills in languages, computer literacy and administration. The Development Champions encourage the development of youth-tailored programs that will also tackle the culture of corruption and create a generation with a new, productive mindset.

8) UNOCHA, *Humanitarian Needs Overview 2018*, 16.

- Similarly, the Development Champions propose the establishment of graduate programs to improve the capacity of state officials. Graduates of these programs would go on to help implement medium- and long-term reconstruction plans, so these programs would contribute to rebuilding state institutions. The Development Champions also recommend creating programs to train youth in the skills needed to design and implement effective development programs and assume leadership roles in state institutions. Although this may be considered a less urgent project, several Development Champions suggested that this effort should begin immediately, as reforming state institutions is critical for the long-term success of reconstruction and development efforts. These efforts will also strengthen the capacity of local and national institutions to transition to the agreed form of governance post-conflict, whether this is a federal state or another option.
- The conflict-driven disintegration of the social fabric is an issue that impacts the success of reconstruction, economic growth and the rebuilding of state institutions. The Development Champions suggest developing a peace-building program to address negative and extremist ideologies propagated over the course of the conflict. They also recommend incorporating a detailed plan for disarmament, demobilization and reintegration activities. The Development Champions suggest reintegrating fighters into society by providing opportunities such as education and vocational training.
- Above all, the Development Champions strongly emphasize that social protection programs must take into account the local context of communities in Yemen. This is likely to require a new, community-based approach.

4. Role of the private sector and local institutions in rebuilding critical infrastructure

Airstrikes, shelling and armed clashes have destroyed Yemen's infrastructure and devastated health, education and sanitation services.⁹ Roads, energy grids, water facilities and homes will need to be rebuilt. The Development Champions emphasize that the reconstruction of Yemen's infrastructure must not aim only to restore the status quo ante. Rather, the process of rebuilding must empower Yemenis to provide for themselves in the future.

- A number of Yemeni ports are in need of full rehabilitation, among them al-Mokha, Soqotra and al-Mahra. The rehabilitation of ports is critical: as the Development Champions note, transportation infrastructure is vital to make Yemen a hub for regional and international trade and to link Yemen's economy to the regional and global economy.

9) UNOCHA, *Humanitarian Needs Overview 2018*, 5.

- The Development Champions recommend that the Yemeni private sector play a key role in rebuilding infrastructure. They emphasize that enabling local input into the recovery process and empowering local actors is critical to transform Yemen and not merely rebuild it. Given the potential role of the private sector in building a stable Yemeni economy, the Development Champions caution international donors against imposing conditions that favor regional and international firms. They suggest prioritizing policies and regulations that encourage public-private partnerships. Collaboration with the private sector could also be fostered through the Build, Operate and Transfer (BOT) method in rebuilding airports, seaports and electricity grids. In addition, the Development Champions suggest creating an environment that enables entrepreneurship and supports small and medium-sized enterprises (SMEs), for instance by fostering financial sector development (such as venture capital) to support them.
- While the Development Champions emphasize the importance of involving the Yemeni private sector in reconstruction projects, they recommend that the private sector's involvement in large-scale reconstruction projects such as rebuilding airports, seaports or highways should be based on a system that ensures efficiency and sustainability. The Development Champions point to the high risk of corruption in the construction sector and the need to develop strict measures to curb potential avenues for fraud.
- With regard to rebuilding Yemen's electricity grid, the Development Champions strongly recommend that reconstruction focus on renewable sources of electricity. Instead of relying on the weak and costly national electricity grid, households and local institutions should be encouraged to (continue to) use solar power and thus to be self-sufficient. An assessment of potential power sources should be carried out at both the national and local level.
- The Development Champions recommend a number of information and communication technology (ICT) improvements, while acknowledging the large amount of capital needed for such upgrades. One Development Champion suggests that ICT is a prerequisite for economic development as it allows for data mobility. As an example, he proposed that the social security system could be modernized by developing data centers to track social security numbers and benefits provided to beneficiaries. The Development Champions further suggest upgrading Yemen's mobile network to 4G standards and building links to international data centers.
- The Development Champions suggest that the rehabilitation of Yemen's airports should be divided into phases. Short-term repairs that will enable the airports to function should be undertaken immediately, while in the long term new airports could be constructed. The cost of building new airports could be included in reconstruction budgets, while equipment could be financed by international companies operating at the airports.

- The Development Champions recommended making it a priority to assess, empower and invest in the Social Welfare Fund (SWF) and the Public Works Project (PWP) as implementing partners. At the same time, the Development Champions recognize that the SWF and PWP are only two tools among many; Yemen may benefit from a variety of implementing parties depending on the type of intervention. One Development Champion suggested categorizing interventions into three levels: human development projects, such as those in education and health, could be implemented by the SWF and PWP according to the expertise and the capabilities required. Medium-sized infrastructure projects, such as roads and bridges, could be implemented through the PWP. Macro-infrastructure projects, such as the construction of airports and seaports, could be handled by international corporations if there is no viable domestic alternative.

5. Creating Jobs

The conflict has had a severe impact on Yemen's workforce. Many of Yemen's 1.2 million public sector employees have not received a regular income since 2016. In addition, an estimated 55 percent of private sector employees were laid off in the first two and a half years of the war alone, as businesses closed or reduced their operating hours.¹⁰ The Development Champions emphasize that job creation is not only essential to stabilize the Yemeni economy, but also to address the humanitarian crisis in the country.

- As pointed out by the Development Champions, Yemeni businessmen have invested in more than 50 industrial projects abroad, yet the Yemeni private sector is hesitant to invest domestically because of the insecure and corrupt environment. Enforcing law and order could incentivize the private sector to invest in the reconstruction and recovery process, thus creating new jobs.
- The Development Champions note that remittances from expatriate Yemenis have far-reaching consequences on the Yemeni economy, contributing to the livelihood of millions of Yemenis. Therefore, the Development Champions argue that reconstruction efforts should directly address remittances as a mechanism to assist economic growth. They advise that regional countries, such as Saudi Arabia, should be encouraged to open their labor markets to Yemeni workers and to exempt Yemenis from recently imposed labor fees and job restrictions.
- The Development Champions suggest that rebuilding damaged factories should be a priority in efforts to empower the local private sector. For example, reopening iron and cement factories would create jobs, have a positive impact on Yemen's GDP, and contribute to rebuilding efforts. The Development Champions also note that reconstruction and recovery efforts must include mechanisms to compensate the private sector for commercial buildings damaged during the conflict.

¹⁰ UNOCHA, *Humanitarian Needs Overview 2018*, 2.

- The Development Champions recommend supporting agriculture as a significant proportion of Yemeni households depend on agriculture for their livelihoods. Prior to the conflict, roughly 30 percent of jobs in Yemen were in the agricultural sector.¹¹ Thus, failure to invest in agriculture would have a widespread detrimental impact on employment, the Development Champions warned. Further details can be found in a policy brief on [Generating New Employment Opportunities in Yemen](#).¹²

6. Engaging and Empowering Local Yemeni Institutions

The Development Champions recommend engaging local institutions and authorities at all stages of the reconstruction and recovery process. Although the Development Champions acknowledge that many local institutions lack the necessary capacity to assume responsibility for implementation directly, they point out that some local governance structures – notably those in Aden, Hadramawt, Hudaydah and Taiz – had proven more effective than others prior to the conflict.

- The Development Champions emphasize that reconstruction efforts need to be inclusive and local Yemenis must be consulted during the earliest stages of reconstruction planning. Creating a sense of legitimacy and local ownership of reconstruction is critical to the success of reconstruction planning, as local actors will ultimately be responsible for implementing the plans. The Development Champions stress that discussions over reconstruction should not be limited to international actors or Yemeni elites based abroad.
- The Development Champions, many of whom see the internationally recognized Yemeni government as unable to manage an undertaking at the scale needed for recovery in Yemen, emphasize the importance of a decentralized process of reconstruction. They recommend engaging local authorities in the processes of needs assessment, planning, and implementation, and advise that the central government’s role should be in providing strong accountability and oversight. Further details can be found in a white paper on [Local Governance in Yemen Amid Conflict and Instability](#).¹³
- The Development Champions suggest dividing reconstruction efforts by geographical zone and type of intervention. For example, governorates could be categorized into three zones according to their respective needs and capacity for implementation. Similarly, interventions could be categorized based on their level (national or local) or type (humanitarian aid, recovery or development). Distinguishing between an immediate intervention in a zone with a high need

11) “Yemen Labour Force Survey 2013-14,” *International Labour Organization*, 2015, accessed February 4, 2018, https://www.ilo.org/wcmsp5/groups/public/---arabstates/---ro-beirut/documents/publication/wcms_419016.pdf.

12) “Generating New Employment Opportunities in Yemen,” *Rethinking Yemen’s Economy*, October 17, 2018, accessed February 21, 2019, <https://www.devchampions.org/publications/policy-brief/Generating-new-employment-opportunities>.

13) Wadhah al-Awlaqi, Maged al Madhaji, “Local Governance in Yemen Amid Conflict and Instability,” *Rethinking Yemen’s Economy*, July 2018, accessed February 21, 2019, https://devchampions.org/files/Rethinking_Yemens_Economy_No2_En.pdf.

and low capacity, for instance, and a longer-term policy intervention in a zone with a higher capacity and lower need, may help to manage donor expectations by providing smaller, more practicable, and more detailed action plans. As the Development Champions point out, donor expectations must be managed as reconstruction interventions will likely begin slowly, given the complex environment within Yemen and limited aid absorption capacities after years of conflict.

- The Development Champions point to electricity service delivery as an aspect of reconstruction that could benefit from local, rather than national, needs assessment and planning. Access to electricity has long been a monopoly of the central government, to the detriment of other potentially more organic market responses. Addressing this issue at the national level has consistently failed, as state interventions have been plagued by corruption. The current widespread use of diesel and petrol to generate electricity is unsustainable in the long term. The use of locally produced renewable energy could contribute significantly and directly to reconstruction: Yemen has more than 40,000 water pressure pumps located in rural mountainous areas, where renewable energy could be employed through local institutions.
- The Development Champions suggest that project implementation at the local level is potentially simpler to achieve and could be presented as a peace incentive. To achieve this, they advise working with capable and well-established local authorities such as those in Marib and Hadramawt.
- Rather than establishing a single national reconstruction program, local authorities should be given the lead in designing their own reconstruction packages. Each local authority could possess a unique revolving fund that could be renewed based on performance. Overlapping projects between local and national authorities could be identified and developed separately.

7. Rebuilding state institutions and rule of law

The Development Champions emphasize that reconstruction efforts must include mechanisms to rebuild trust in central authority and the rule of law.

- The Development Champions suggest that reconstruction and recovery efforts should prioritize rebuilding key state institutions, enhancing public administration and financial management, and rehabilitating security and judicial systems. Although revitalizing these institutions lacks the urgency of more humanitarian interventions, it could nevertheless contribute significantly to the process of reconstruction by re-establishing the rule of law.
- The Development Champions argue that in order to build trust, the process of reconstruction must include political reforms and binding legal constraints. They note that Yemen suffers from rampant corruption and highlight the need

to implement concrete measures and institutional arrangements to limit corrupt practices during recovery and reconstruction. They also argue that such reforms should occur at all levels of governance, from community groups and district levels up to the governorate and national levels.

- Specifically, the Development Champions note that reconstruction will require a clear legal framework to safeguard its design, adoption and implementation. They also emphasize the need to conduct conflict-sensitive planning to avoid exacerbating tensions.

8. Establishing a Reconstruction Bureau

Finally, the Development Champions suggest establishing a new bureau to oversee reconstruction efforts:

- The Development Champions suggest that this bureau could manage funds and coordinate the various policies of different donors. In establishing the bureau, the specific roles of the Yemeni actors and international donors must be clearly delineated in a way that prevents corruption and ensures efficiency. Further details can be found in the following policy brief: [An Institutional Framework for Post-Conflict Reconstruction in Yemen](#).
- The Development Champions also propose establishing an anti-corruption and oversight mechanism to accompany the reconstruction and recovery process.

To conclude, the Development Champions strongly underscore the importance of beginning the process of recovery and reconstruction even while the conflict is ongoing. In their views, the deteriorating conditions in Yemen require an immediate response. Reconstruction, the Development Champions suggest, could begin in secured areas: small-scale interventions could test the efficacy of reconstruction financing and implementation models. The Development Champions suggest Aden as a potential pilot site, as the southern coastal city could become a model for the rest of Yemen. Reconstruction projects could also be begin in Mukalla in Hadramawt governorate: it is a largely conflict-free city and success there might motivate donors to invest in reconstruction projects elsewhere.

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ABOUT THE “RETHINKING YEMEN’S ECONOMY” INITIATIVE

This two-year project, which was launched in March 2017, is an initiative to identify Yemen’s economic, humanitarian, social and developmental priorities in light of the ongoing conflict in Yemen and to prepare for the post-conflict recovery period. The project aims to build consensus in crucial policy areas through engaging and promoting informed Yemeni voices in the public discourse, and to positively influence local, regional and international development agendas.

The project has four components: (1) in the Development Champions Forums, Yemeni experts and professionals in social and economic development will identify key issues for intervention and provide recommendations towards tackling these issues; (2) in the Research

Hive, the project consortium will – based on the issues and recommendations of the Development Champions – conduct research and identify best practices and lessons learned from international experiences to create knowledge capital for the Rethinking Yemen’s Economy initiative; (3) in the public outreach component, the consortium will implement consultation workshops with local stakeholders, including the private sector, youth and civil society organizations; moreover, campaigns through both traditional and social media outlets will be conducted to engage the wider Yemeni public; (4) and through regional and international engagement the consortium will inform stakeholders of project outcomes and aim to motivate and guide the international community’s policy interventions to the greatest benefit of the people of Yemen.

For more information and previous publications: www.devchampions.org

Implementing Partners

The project is implemented by a consortium of the following three partners:



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