



PRIORITIES FOR GOVERNMENT POLICY IN YEMEN

EXECUTIVE SUMMARY

This policy brief outlines recommendations for the immediate priorities of the Government of Yemen, both to achieve quick wins and to prepare the ground for medium and long-term success. These recommendations are the outcomes of in-depth discussions held during the fourth **Development Champions** Forum convened on December 8-11, 2018, in Amman, Jordan. They are designed to offer Prime Minister Maen Abdulmalik Saeed and his cabinet a set of practical measures to help the government build on the momentum and increased visibility it achieved in the final quarter of 2018.

The immediate priorities recommended by the Development Champions include steps to support the stabilization of the local currency, an area in which tangible progress has already been made. The Champions also urge the government to regularize the payment of public sector salaries and pensions. Another immediate priority for the government should be to take steps to stabilize and transform Aden, the Champions suggest, based on the shared consensus that the southern coastal city could become a model for the rest of Yemen. The Champions emphasized that developing Aden would depend on improving the level of security across the governorate.

While recognizing that the government faces immediate challenges that demand attention in Aden and across the country, the Development Champions urge the government to plan and implement procedures to prepare for the country's medium and long-term future. These strategies should address the root causes of Yemen's socio-economic instability, and not just its symptoms.

Among the most important actions to prepare for long-term priorities is the expansion of the roles and responsibilities of local government authorities, the Champions concluded. During the conflict, decision-making authority has filtered down to the local level and become far more decentralized. The government should build on this new reality to reconfigure the state and its relationship with local government authorities.

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



RECOMMENDATIONS

The following recommendations for the Government of Yemen are divided in two sections: quick wins (immediate priorities) and actions for medium and long-term priorities. Recommendations for immediate priorities are presented in three categories: the first addresses measures to support the stabilization of the Yemeni rial; the second identifies steps to regularize the payment of public sector salaries and pensions; and the third outlines ways to stabilize and transform Aden into a model for the rest of Yemen. Actions to prepare for Yemen's mid- and long-term priorities are then presented. These include recommendations to expand the roles of local government authorities; restore confidence in the state; develop pilot development programs; increase state efficiency; and restructure government debt.

Immediate Priorities:

1. Continued Stabilization of the Local Currency and Market Exchange Rates

The Government of Yemen should take the following actions to build on the recent progress made toward stabilizing the Yemeni rial and market exchange rates. Currency fluctuations directly affect the prices of food and other basic commodities and thus impact the lives of all Yemeni citizens.

- Activate local revenue collection, such as the collection of fees and taxes from local businesses as well as the general public.
- Protect and increase foreign currency reserves to help the Central Bank regulate and facilitate commercial imports and make commodities available on the domestic market.
 - One way to increase foreign currency reserves would be to convince international stakeholders to: (i) release funds that have been frozen since the relocation of the Central Bank in September 2016 to the temporary headquarters in Aden; (ii) make additional deposits in the Central Bank to add to the \$2bn Saudi deposit, and (iii) transfer humanitarian aid funds via the Central Bank.
 - A donor conference could be held to secure additional funds to activate the economy and to support the current efforts to shift imports, domestic trade and financial flows from the informal to the formal economy.
 - Make better use of Yemeni commercial banks' foreign assets to help underwrite the Letters of Credit issued to merchants to import essential commodities, and better utilize foreign currency resources such as wire transfers from international organizations, revenues from oil sales and remittances, instead of being overly reliant on the unsustainable Saudi deposit.
- Better manage public debt and liquidity, for example by finding alternative ways to increase the amount of local currency managed by the Central Bank, other than printing banknotes, which leads to inflation.

- Boost the capacity of the Central Bank in Aden to ensure the stability of the exchange rate and to complement government fiscal and monetary policies.
- Consult regularly with Yemeni commercial and Islamic banks and major importers of basic commodities about the various mechanism and bylaws related to organizing imports and provisions of needed funds for importers.
- Monitor and regulate licenses issued to money exchangers more closely and utilize them to stabilize the prices of exchange.

2. Regularize Payment of Public Sector Salaries and State Pensions

The Government of Yemen should prioritize the payment of public sector employee salaries and state pensions, not least because the infrequent payment of these salaries has reduced individual purchasing power and thus exacerbated the severe humanitarian crisis in Yemen. The infrequent payment of salaries has also contributed to the collapse of the education and healthcare sectors. With this in mind, the Development Champions present the following recommendations:

- Pay the salaries of all public sector employees in state administration units across the country – in accordance with the Ministry of Civil Service and Insurance data recorded in 2014.
 - The payment of public sector employees working in the education and healthcare sectors should be prioritized, as these sectors represent 85% of all employees in state administration units.
- Pay the state pensions of all retirees located across the country who previously qualified for pensions and completed their pension application process.
- Coordinate with Yemeni commercial and Islamic banks to ensure that public sector employees' salaries and state pensions are paid regularly and directly through commercial banks.
 - Part of this process could be to ensure that all approved recipients have an active account with a Yemeni commercial or Islamic bank.
- Establish a rigorous electronic system to stop the duplication of payments for public sector employees – in accordance with the Ministry of Civil Service and Insurance data recorded in 2014.
- Biometric data should be used to maintain accuracy, prevent fraud, avoid duplicate payments and ensure that money allocated for public sector salaries and state pensions reaches the intended beneficiaries.
- Request support from the Saudi-led coalition to cover any financial deficit resulting from the expansion of payments to public sector employees and retirees.

3. Transforming Aden into a Model

While acknowledging that the security situation in Aden is in flux, the Government of Yemen should start taking steps that would allow the stabilization and transformation of Aden into a fully-functioning city and governorate. The government should prioritize the development of economic facilities and local infrastructure as well as the provision of essential services and security. The government must deliver a message that it is capable of creating a secure environment from which to govern and develop local areas, addressing the issues that have limited Aden's progress, despite the liberation of the city in July 2015.

Develop Aden's Economic Resources and Infrastructure:

- Increase the capacity of the airport, port and refinery in Aden to enhance business activity and generate additional revenues. To achieve this, the government will need to address a number of obstacles that currently prevent these vital economic and transport facilities from reaching their full potential and that also limit private sector engagement.
- Reduce the time it takes for importers to bring commercial goods into Yemen via Aden Port.
- Work with international organizations and shipping and insurance companies to reduce shipping costs.
 - For example, the government addressed the sudden rise in insurance fees following the attack on the French oil tanker MV Limburg off Yemen's coast in October 2002 by establishing an escrow account to cover any insurance claims, which helped bring down insurance fees significantly.
- Improve the services and security procedures at Aden International Airport and examine the scope for additional international flights and airlines at the airport.
- Ensure the provision of vital services like healthcare, electricity, water, waste collection and sanitation, and combat the spread of sewage water.
- Carry out maintenance work on the roads across Aden and connecting roads to other governorates in addition to reopening any roads that are currently closed, for example where armed groups have established security checkpoints.
- Rebuild civilian homes damaged by fighting in Aden.
- Renovate schools and open additional classrooms to reduce overcrowding in schools.
- Activate the bureaus and executive offices of the different ministries.

Security:

- Prevent the carrying of weapons inside the city and implement campaigns to prevent the proliferation of arms.
- Ensure the freedom of movement of people and goods into and throughout Aden, while addressing any violations such as those experienced by northerners traveling to or from Aden.
 - Clamp down on people demanding bribes to allow the movement of people and goods.
 - Reopening closed roads could help to address this problem by providing alternative routes. Where only one road is available, it is easier for bribes to be extorted from travellers.
- Introduce new traffic regulations and monitor compliance to improve road safety.
 - These regulations should include the introduction of a new mechanism or database to issue car registration numbers and license plates.
- Enhance the ability of the police and judiciary to improve security and respect for the rule of law.
 - Seek technical support to improve policing and safety, for example by introducing CCTV as a deterrent and to identify lawbreakers.

Empower Members of the Local Community:

- Build channels of communication and modes of participation for local community leaders in the city.

Actions to Prepare for Medium and Long-term Priorities:

1. Activate and Expand the Roles and Responsibilities of Local Authorities

- Reconfigure the relationship between the central and local government at both the governorate and district level, ensuring greater local decision-making authority.
- Seek greater input from civil society representatives as well as other local community leaders.
- Assess local revenue streams and potential economic growth at the governorate and district level.

2. Restore Confidence in the State

- Use successes in public policy to restore people's confidence in the state, premised on the idea that the state is able to deliver its citizens a better future and uphold the principle of equal citizenship.
- Develop 'branding' and communications campaigns to publicize the government's achievements, like delivering public services and improving public infrastructure, and to unite people around shared ideals. Lessons can be learnt from other regional countries' experiences.

3. Develop Economic Models from Pilot Programs

- Plan and implement a series of pilot programs at the local level to foster socioeconomic development, initially at a number of rural villages throughout the country. The planning process should begin immediately.
 - These model villages could provide a blueprint that could be exported to other rural areas in the country.
 - Pilot programs should then be introduced in select urban areas and potential projects should be identified in sectors that can harness future economic growth, such as the alternative energy sector.
- Ensure greater private sector involvement in the planning and implementation of local development projects and pilot programs.
- At a later stage, examine the possibility of initiating large-scale development projects that will provide local employment, such as the construction of main roads and a national railway line. The government should take the lead on any large-scale infrastructure development projects, but also seek the involvement of the private sector in the planning and implementation process.

4. Increase State Efficiency

- Develop a mechanism for strategic planning to map out specific procedures to enhance the performance of the state, for example to improve the functioning of state institutions, the provision of basic services and security and local development.
 - Potential agents to oversee this strategic planning include the Office of the Prime Minister or the Supreme Economic Council, the latter of which still needs to be reactivated.
 - Re-form the cabinet and replace it with a smaller technocratic government that is commensurate with the challenges on the ground, and increase its effectiveness and integrity.

- Run a series of transparency and accountability campaigns to enhance trust in the state and the actions taken by the government, the results of which should be made public. These campaigns should then become permanent practice and extended.
- Develop electronic databases to register and update citizen and resident information, including a national census.
- Re-activate the monitoring and accountability institutions and integrity committee, and contract auditing firms to audit the work of the various state institutions, especially the income-generating and service institutions. Also, reactivate anti-corruption mechanisms to address the rampant corruption at the different levels of the state.

5. Debt Restructuring

- Begin work on a plan for restructuring the external and internal debt, as the gross domestic debt reached YR 3.273 trillion (US\$15.233 billion) in 2014, while the gross external debt was US\$7.3 billion in the same year.

*Note: This document has been produced with the financial assistance of the European Union and the Embassy of the Kingdom of the Netherlands to Yemen. The recommendations expressed within this document are the personal opinions of the **Development Champions** Forum participants only, and do not represent the views of the Sanaa Center for Strategic Studies, DeepRoot Consulting, CARPO, or any other persons or organizations with whom the participants may be otherwise affiliated. The contents of this document can under no circumstances be regarded as reflecting the position of the European Union or the Embassy of the Kingdom of the Netherlands to Yemen.

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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