



ECONOMIC CONFIDENCE BUILDING MEASURES – CIVIL SERVANT SALARIES

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EXECUTIVE SUMMARY

In December 2018, 23 of Yemen's leading socioeconomic experts convened in Amman during the Fourth Development Champions Forum to discuss economic confidence-building measures in the peace process in Yemen. The discussions at the Forum, which is part of the Rethinking Yemen's Economy initiative, touched on a number of economic mechanisms that could be implemented to build confidence. These included supporting the Central Bank as an independent institution that serves all of Yemen; ensuring the deposit of public revenues in all governorates at the Central Bank headquarters in Aden; and opening ports and ensuring the free movement of goods, humanitarian aid and people between governorates. The Forum focused on the payment of salaries and pensions to all civil servants due to the critical importance of the issue; this policy brief presents the outcomes of this discussion.

As a key step to simultaneously address the humanitarian crisis in Yemen and build confidence between the parties engaged in the peace process, the Development Champions recommend that the Yemeni government resumes salary payments to all civil servants working in the administrative apparatus of the state registered in the Ministry of Civil Service database of 2014 across Yemen, prioritizing payments to education and health workers. The Yemeni government should also continue to provide liquidity to guarantee the payment of pensions to all public sector retirees. Meanwhile, Ansar Allah should allow all state revenues in areas under their control to be deposited into the accounts specified by the Central Bank of Yemen temporarily headquartered in Aden, and all parties should work toward the restoration of the Central Bank as a national institution that serves all of Yemen. The Development Champions call on regional and international donors to cover any funding gap to support the payment of salaries and pensions.

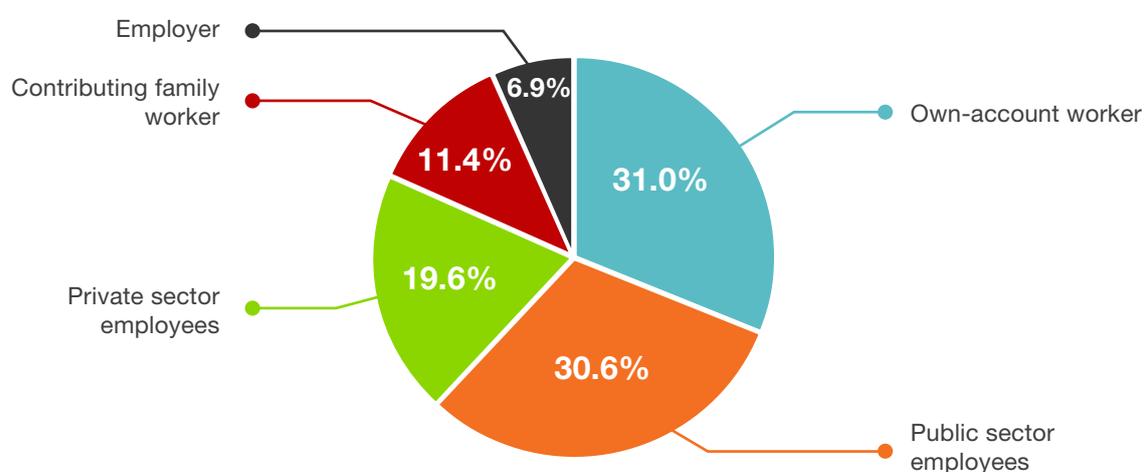
This policy brief was prepared by DeepRoot Consulting, in coordination with the project partners the Sana'a Center for Strategic Studies and CARPO – Center for Applied Research in Partnership with the Orient.



INTRODUCTION

The government is the biggest employer in Yemen. Yemen’s public sector experienced rapid growth in the 1990s, when patronage was rife and political parties sought to win support by distributing jobs in the civil and military services. By 2014, the public sector payroll included 30.6 percent of the Yemeni labor force, as shown in Figure 1.¹ This payroll was inflated, however, as it included significant numbers of “double-dippers”, who held more than one position and received multiple salaries, as well as “ghost workers”, who did not exist but whose salaries were collected by their supervisors. As shown in Figure 2, in 2017 up to 40 percent of the population was dependent on government salaries in the governorates of Marib, al-Jawf, Abyan and the Capital Secretariat (Sana’a).² As a result, public sector salaries and pensions have accounted for a large share of the money supply in the macroeconomic cycle and the monetary and fiscal cycles. These payments also have a direct and indirect impact on multiple economic indicators, including the gross domestic product and the general state budget.

Figure 1 - Employed Population by Sector (%)



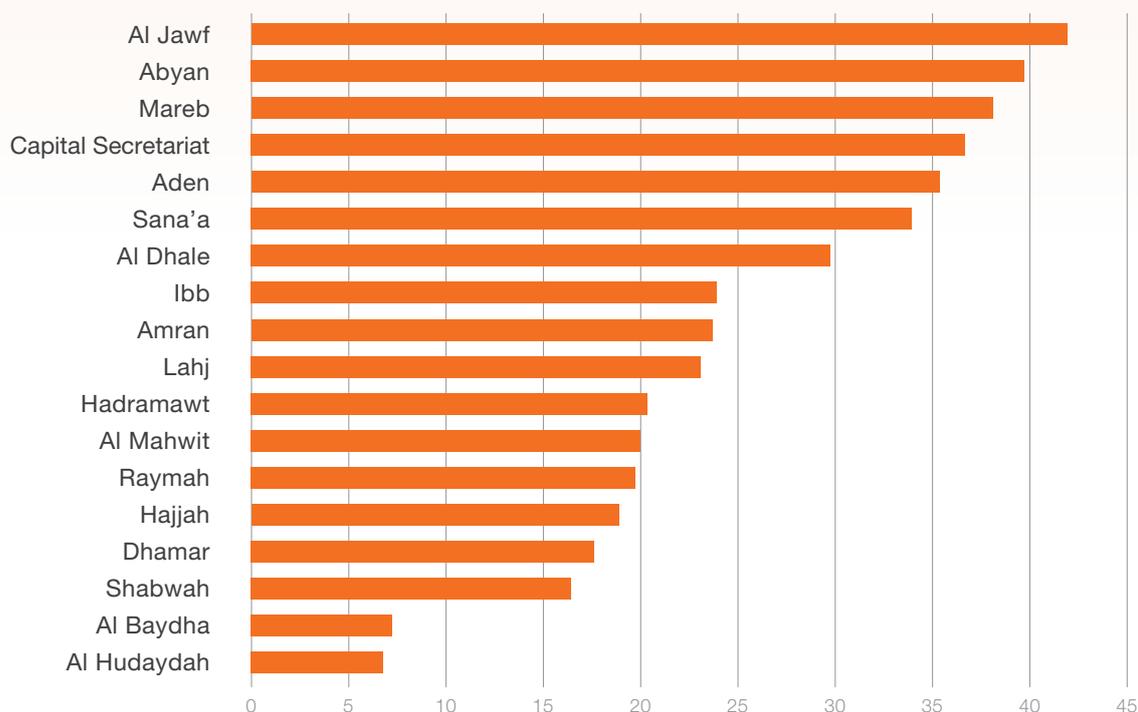
Source: Yemen Labor Force Survey 2013-2014³

1) “Yemen Labor Force Survey 2013-14,” International Labor Organization (ILO), 2015, accessed February 28, 2019, https://www.ilo.org/wcmsp5/groups/public/-arabstates/-ro-beirut/documents/publication/wcms_419016.pdf.

2) “Emergency Food Security and Nutrition Assessment (EFSNA) - Yemen”, World Food Programme (WFP) et al, June 2017, accessed February 28, 2019, https://www.humanitarianresponse.info/sites/www.humanitarianresponse.info/files/documents/files/yemen_efsna_-_full_report_final_2016.pdf.

3) ILO, Yemen Labor Force Survey, 27.

Figure 2 - Percentage of the Population That Relies on Government Salaries as a Main Source of Income (%)



Source: World Food Program, Emergency Food Security and Nutrition Assessment (EFSNA), June 2017⁴

In September 2016, the payment of salaries for 1.2 million public sector employees was suspended amid a liquidity crisis. The same month, the Central Bank was relocated from Sana'a to Aden. Salary payments resumed in early 2017, but these were generally restricted to areas controlled by the internationally recognized Yemeni government.⁵ Since November 2018, payments of public sector pensions have been extended to reach all retirees in all areas of Yemen.⁶ Prior to this, pensions had been paid to around two-thirds of public sector retirees.

Due to the size of Yemen's public sector, this has had catastrophic implications at a time when Yemen faces the worst humanitarian crisis in the world, with 10 million Yemenis on the brink of starvation, in part because they cannot afford food.⁷ Public Sector Workers often support large families or function as a safety net for entire villages, so the suspension of their salaries left millions of Yemenis without their main breadwinner and many more without anyone to turn to for a loan. Meanwhile, the non-payment of teachers, doctors and nurses has deteriorated services in the health and education sectors.

4) WFP, EFSNA, 109.

5) Wadah al-Awlaqi and Maged al-Madhaji, "Local Governance in Yemen Amid Conflict and Instability," *Rethinking Yemen's Economy*, July 2018, accessed February 28, 2019, https://devchampions.org/files/Rethinking_Yemens_Economy_No2_En.pdf.

6) *Starvation, Diplomacy and Ruthless Friends: The Annual Review 2018*, Sana'a Center for Strategic Studies, January 2019, accessed February 28, 2019, <http://sanaacenter.org/publications/the-yemen-review/6808>.

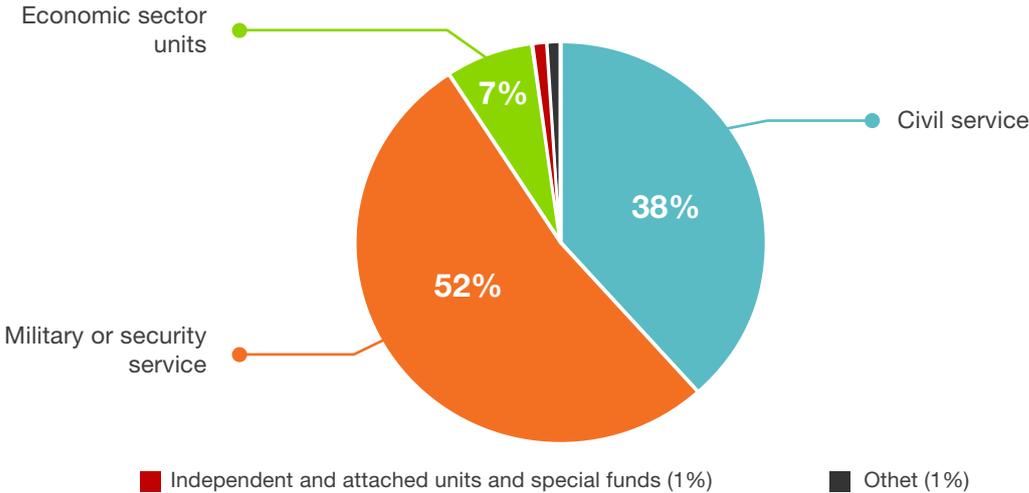
7) Lowcock, Mark. "Briefing to the Security Council on the humanitarian situation in Yemen." New York, January 9, 2019. Accessed February 11, 2019. <https://reliefweb.int/report/yemen/under-secretary-general-humanitarian-affairs-and-emergency-relief-coordinator-mark-13>.

Due to the interrelated dynamics at play in the Yemen conflict, economic issues are intertwined with security and political considerations, and addressing the economic crisis in Yemen is thus vital as a confidence-building measure to support the peace process. Progress toward economic stabilization would have positive implications in breaking the cycle of conflict. Crucially, resuming salary payments to public sector employees would improve immediate prospects for millions of Yemenis.

Overview of the Public Sector

In 2014, around 1.25 million people were employed by the government in Yemen, according to data from the Ministry of Civil Service and Pensions. Of these, 38 percent were employed in the state’s administrative apparatus, 52 percent in the military and security sectors and 9 percent in economic sector units (state-owned enterprises), independent and attached units, and special funds.

Figure 3: Breakdown of Public Sector Employees as of 2014



Source: Ministry of Civil Service and Insurance

The majority of the 472,000 public sector workers in the administrative apparatus – 87.6 percent – were employed by local authorities, mostly in the education and public healthcare sectors. Of the roughly 653,000 people employed in the military and security sectors, 70 percent worked for the Ministry of Defense, while 28 percent were employed by the Ministry of Interior and 2 percent by the Political Security Organization.

Data from the General Authority for Social Security show that there were 123,000 pensioners in 2014, 88 percent of whom were male. This figure does not include pensioners who retired from the Ministries of Interior or Defense, for whom insufficient information was available.

Prior to the conflict, public sector salaries constituted one of the largest items in the state budget, accounting for an average of 32 percent of government spending between 2001 and 2014. In 2014, the budget item for public sector salaries amounted to 1.14 trillion Yemeni rials (YR), which at the time was equivalent to US\$5.3 billion. This included YR546.9 billion to the civil service, YR430.2 billion to the military and security services and YR162.4 billion to the economic sector units. Meanwhile, the General Authority for Social Security and Pension spent YR64.8 billion in 2014 to pay pensions to retirees on its register. This did not come from the state budget, but was instead financed through deductions from civil servants' salaries.

Impact of the conflict

The conflict has driven an economic collapse in Yemen. Interruptions to oil exports, which once made up half the state's annual income, contributed to a sharp decline in government revenues. In addition, the remaining revenues, in particular customs and taxes, have been split between Ansar Allah and the internationally recognized Yemeni government.

The Yemeni government spent YR745 billion on wages and salaries in 2018, according to government data from early December 2018, a drop to 76.3 percent of the 2014 government spending on wages and salaries. However, government spending on salaries for the military and security services increased by around 15 percent since 2014, while only covering the military and security personnel in government-controlled areas. Spending on salary payments to the civil service, meanwhile, was only 46.2 percent of 2014 levels, partly because the government only paid 51 percent of civil servants regularly.

In late 2018, the government approved a 30 percent pay rise for civil servants who were receiving salaries. This inflated the costs in the state budget at a time of limited public revenues and divided monetary authorities. Unless direct budget support is received from external grants and aid to pay civil servant salaries, the government salary bill will increase the budget deficit and risk the use of inflationary financing, like printing new rial banknotes and obtaining more overdraft financing from the Central Bank, thus further destabilizing Yemen's economy.

Table 1 – Salary payments for Civil, Military, and Security services (Billions of YER)

	2014	2018*
Total Salaries and Compensation	1140	745
Civil Service	546.9	252.5
Military and Security Service	430.2	492.7
Independent Units and Funds	162.4	**
Pensioners	64.8	**

Source: Budget Book for 2014 and data from the Ministry of Finance for spending in 2018

* Represents only what has been spent by the Government of Yemen

** No data was available on spending in this category in 2018

RECOMMENDATIONS

After in-depth discussions, the Development Champions developed the following recommendations to respond to the salary crisis that has exacerbated the humanitarian catastrophe in Yemen:

- The Government of Yemen should pay the salaries of all employees of the units of the administrative apparatus of the state across Yemen based on the database of the Ministry of Civil Service in 2014.
 - The government should prioritize salary payments to employees in the education and health sectors, who represent 85 percent of civil servants and whose services are crucial for all Yemenis.
 - The government should approve a mechanism for the regular payment of salaries in all Yemeni governorates directly to the beneficiaries' accounts in commercial banks and at the post office.
 - The international community should coordinate meetings between economic specialists in Sana'a and Aden with the goals of resuming the full functions of the Central Bank and coordinating fiscal and monetary policies.
 - Ansar Allah should deposit all revenue collected in areas under their control into accounts that are specified by the Central Bank of Yemen headquarters in Aden.
- The government of Yemen should continue to provide liquidity for the payment

of pensions to all retirees registered in the General Authority for Social Security and Pensions and the General Corporation for Social Security. In this regard, the Development Champions emphasize the importance of preserving the resources of these bodies and not using them for any other purposes.

- Regional and international donors should provide financial support to cover the wage bill, due to the lack of local resources to achieve this. This should be direct support to the general state budget. The government should guarantee that this support will be used to fund salaries and necessary development projects and that the principles of transparency and good governance will be adhered to.
- All parties must work to implement the Central Bank law and to restore the Central Bank as a national institution that serves all of Yemen and protects the value of the national currency.
- All parties to the conflict should instate a hiring freeze on public sector appointments. The rising wage bill for the public sector, including the military and security entities, is a ticking bomb that threatens future economic stability in Yemen. The state will struggle to carry the burden of paying salaries for the bloated public sector when a peace agreement is reached, so the Development Champions also recommend that specialists should advise on a strategy to deal with this issue in the medium and long term.
- Humanitarian aid organizations should increase the disbursement of direct cash transfers in humanitarian aid in Yemen (as opposed to in-kind donations), as this will boost the national economy and create economic activity.
- All parties should continue to focus on the economic track in future political talks and negotiations.

*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:



The Sana’a Center for Strategic Studies is an independent think-tank that seeks to foster change through knowledge production with a focus on Yemen and the surrounding region. The Center’s publications and programs, offered in both Arabic and English, cover political, social, economic and security related developments, aiming to impact policy locally, regionally, and internationally. www.sanaacenter.org



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The Center for Applied Research in Partnership with the Orient (CARPO) is a Germany-based organization whose work is situated at the nexus of research, consultancy and exchange with a focus on implementing projects in close cooperation and partnership with stakeholders in the Middle East. The CARPO team has long-standing experience in the implementation of projects in cooperation with partners from the region and a deep understanding of the Yemeni context. www.carpo-bonn.org

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