Yemen Policy Note 3:

Private Sector Readiness to Contribute to Reconstruction & Recovery in Yemen

WOLD BANK GROUP

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Acronyms

AFPPF	Agriculture and Fisheries Program Promotion Fund
AML/CFT	Anti-Money Laundry/ Combating the Financing of Terrorism
CAFEF	Conflict-Affected and Fragile Economic Facility
CBRs	Correspondent Banking Relationships
CBY	Central Bank of Yemen
CDD	Customer Due Diligence
DNA	Yemen Damage Needs Assessment
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
FAO	Food and Agriculture Organization
FEU	Flight Equivalent Unit
FSRA	Financial Sector Restructuring Agency
FX	Forex
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GoY	Government of Yemen
IDPs	Internally Displaced Persons
IFC	International Finance Corporation
ILO	International Labor Organization
IMF	International Monetary Fund
IPC	Integrated Food Security Phase Classification
IsDB	Islamic Development Bank
ITC	International Trade Centre
LD	Liquidated Damages
LPI	Logistics Performance Index
MEGA	Multilateral Investment Guarantee Agency
MENA	Middle East and North Africa
MERAP	Middle East Reconstruction Advance Purchase
MFIs	Microfinance Institutions
ML/FT	Money Laundry/Financing of Terrorism
MOPIC	Ministry of Planning and International Cooperation
MSMEs	Micro, Small and Medium Enterprises
MT	Metric Tone
NGOs	Non-Government Organizations
NPLs	Non-Performing Loans
PEPs	Politically Exposed Persons

SFD	Social Fund for Development
SMEPS	Small & Micro Enterprise Promotion Services
SMEs	Small & Micro Enterprises
TEU	Twenty-Foot Equivalent Unit
UAE	United Arab Emirates
UN	United Nations
UNDP	United Nations Development Program
UNOCHA	UN Office for the Coordination of Humanitarian Affairs
UNVIM	United Nations Verification and Inspection Mechanism
USD	United States Dollar
WB	World Bank
WFP	World Food Program
WITS	World Integrated Trade Solution
YER	Yemeni Riyal

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EXECUTIVE SUMMARY

1. Since 2011, Yemen has suffered a series of crises resulting in the ongoing war which began in March 2015 and which has had major economic consequences. In the 21 months, since the conflict began, GDP has contracted by a record of 38 %, accumulatively. Inflation was 40 % in 2015. Though the private sector has been badly affected, it will be crucial to recovery.
A SMEPS survey, conducted in 2015, found that after six months of war 74 % of the firms surveyed reported physical damage. Labor markets have been significantly affected with employment declining by 13 % in Sana'a City, Al-Hodeida, and Aden whilst participation in the labor market has declined sharply. Input markets have also been hit with supplies unable to move around the country due to conflict and damage to both roads and market places.

2. Trade has been badly affected by the war. Total imports are estimated to have dropped 54% between 2014 and 2015 with total exports dropping 51% in the same period. There is significant damage to four of Yemen's seven major ports whilst three of them are not currently under Government of Yemen's control. The United Nations conducts inspections on shipments to non-Government ports, which slows the import process whilst shipping premiums have skyrocketed. Trade financing has become a major problem with Western banks cutting credit lines to traders shipping food into Yemen and letters of credit have become very difficult to obtain. The Central Bank of Yemen (CBY) is no longer able to guarantee trade facilities due to its split along conflict lines and its lack of foreign exchange. A major food crisis is, in part, the result.

3. The Yemeni financial sector faces problems of liquidity, solvency and foreign exchange access. The CBY has lost almost all of its foreign exchange reserves despite assistance from the IMF. The solvency of the banking system is also in question with NPLs increasing and over exposure to large related party transactions. Microfinance institutions are also under pressure as borrowers are struggling to repay. Correspondent Banking Relationships have also reduced, making it difficult to access international banking services.

4. The construction sector is historically an important sector in Yemen and should play a major role in recovery. However, the sector has suffered from contract suspension and cancellation during the crisis while qualified workers have left the market. Construction material costs have spiked during the war whilst imported inputs are severely limited. In some areas, however, reconstruction has already begun with construction employment already increasing in Aden.

5. The Government of Yemen and donors should take immediate steps to support the private sector. Priority actions include supporting the construction sector to help retain manufacturing and reconstruction capacity through financial and technical support and restarting trade financing by supporting CBY and, if need be, an emergency facility. Supporting MSMEs through recovery grants should also be a short-term priority. Further, longer term reconnecting the Yemeni banking

sector to the rest of the world and providing investment guarantees to help mobilize private sector capital are required.

I. INTRODUCTION

6. The year 2011 represented a series of political, social, and economic crises, culminating in the war that started in March 2015, which continue to reverberate throughout Yemen today. The ongoing war has all but halted Yemen's exports, severely limited food and fuel imports, pressured the currency's exchange rate, accelerated inflation, and caused widespread damage to vital economic infrastructure such as refineries, airports and seaports. By the beginning of 2017, 21 months after the start of the conflict, Yemen's gross domestic product (GDP) had contracted by a record 38 %, accumulatively. The inflation rate reached 40 % in 2015, and it is estimated to have risen further in 2016.[1] Public revenues declined by about 50 % in 2015 compared to 2014, and by another reportedly 20 % in 2016, compared to 2015, leaving many expenditure commitments unmet, including salaries. Oil was the biggest driver of this decline - oil revenues dropped by 77 % while non-oil revenues decreased by 34 %. The oil and gas industries are not functioning due to widespread conflict and damage to critical infrastructure. Major damage has occurred to oil and gas refining installations and related export facilities in Aden and the bombed installations of Ra's Eisa of Hodeida. Foreign oil companies have suspended operations in Yemen. Consequently, the living conditions of the population have deteriorated markedly, with UN agencies reporting that at least 19 million out of 28 million Yemenis are in need of humanitarian assistance.

7. Effective reconstruction and recovery demands an understanding of the socio-economic drivers of resilience and recovery in Yemen, including the private sector. The private sector, including micro, small, and medium enterprises (MSMEs) that are prevalent in Yemen, is a major source of employment and provider of basic goods and services, making it an important part of socio-economic resilience and recovery. The capacity of trade, financial, construction, and agricultural sectors will be of particular importance for recovery and reconstruction. The success of any reconstruction and recovery plan will depend on the ability of the post-conflict government to enable the recovery of these sectors; it will also require the commitment of the donor community in providing direct support to the private sector to ensure its readiness and ability to contribute to reconstruction post conflict. It is therefore of utmost importance to understand the drivers of private enterprises' behavior, their incentives, the legacies of conflict, and the constraints and environment under which they operate.

8. This note will discuss both conflict-related and key systemic constraints on the private sector and priorities for supporting resilience and recovery. It will focus on the private enterprise in sectors that are key to resilience and recovery: trade, construction, finance, and agriculture. It will present immediate and short-term investment and policy recommendations to support the recovery and stabilization needs of private sector operations during and following the end of the conflict.

1 MOPIC estimates.

II. IMPACT OF THE CONFLICT ON THE PRIVATE SECTOR

9. The current conflict devastated an already weak private sector suffering from a number of structural and interrelated constraints. Prior to the conflict, political instability and insecurity, electricity shortages, and corruption were consistently cited by private sector firms as top constraints to business.[2] Compared to other MENA economies, Yemen also had the highest share of credit-constrained firms, with only one percent of financing being sourced from banks; rather, firms rely on other sources including networks, family, and retained earnings. Yemeni non-oil exports were limited due to a shallow private exporting sector – the most recent data records an average of only 512 exporting firms between 2006 and 2009.

10. The direct impact of the current conflict, internal fighting, and severe restrictions on trade by air and sea further exacerbated the situation and adversely affected almost every part of the economy. The conflict has made business transactions more costly and favored short-term considerations of actors at the expense of longer-term business development and investment objectives. Rationed or increasingly failing input markets (energy, labor, intermediate goods, and services) and deteriorating financial as well as export markets resulted in additional production costs. As a result, according to SMEPS 'Rapid Business Survey' of 2015, over a quarter of all businesses closed, including 35 % of the service sector, 29 % of the industrial enterprises, and 20 % of the trading companies. The impact on the private sector can be traced through a number of channels, including direct physical damage, disruption of the labor market, and disruption in access to inputs and markets due to insecurity and disruptions in trade and finance operations. The impact on the crisis also differs by type of enterprise. Where possible, this section will aim to distinguish between producers and traders. The section will also cover the impact on the private agricultural sector, which is predominantly represented by small farmers and traders, to the extent that information is available.

Physical Damage

11. 11. The total damage to private sector infrastructure is unknown but there are reports of damage and destruction to thousands of commercial and manufacturing establishments, including small businesses, factories, food warehouses, markets, and gas stations. According to the findings of SMEPS' 2015 survey of the impact of the conflict, in the first six months of the war, 74 % of the enterprises surveyed reported physical damage, with reported damage varying widely by city (see Figure 1). Of businesses that closed, 95 % reported physical damage, of which 77 % reported complete damage and 15.4 % partial damage. A 2016 report by Human Rights Watch, reported damaged or destroyed businesses, including those that produced, stored, or distributed goods and services for the civilians such as food, medicine, and electricity. These goods and services were in short supply even before the conflict began. The Human Rights Watch report documented the impact of the coalition airstrikes on 13 civilian economic structures, including factories, commercial warehouses, a farm, and two power stations. Collectively, the 13 facilities employed over 2,500 people; following the attacks, many of the factories ended their production and hundreds

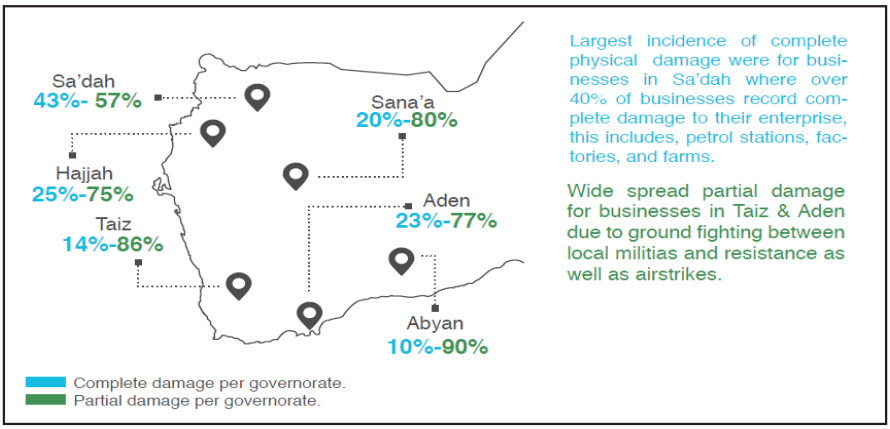
2 What's holding back the Private Sector in MENA? Lessons from the Enterprise Survey", EBRD, EIB, and the World Bank, 2016.

of workers lost their livelihoods. Another report by the Sana'a Chamber of Commerce and Industry documented the damage or destruction of at least 196 business establishments. The Sana'a Chamber of Commerce building was itself destroyed. However, there are still no comprehensive, up-to-date assessments or estimates for the total cost of damage inflicted on the private sector during the war.

Sana'a Chamber of Commerce.
http://www.almotamar. net/news/127572.htm

Coca-Cola factory in Sana'a on December 12, 2015. © 2015 Mersad News Agency

Figure 1: Incidence of physical damage to businesses



Source: SMEPS, 2015, Rapid Business Survey, Impact of the Yemen Crisis on Private Sector Activity

12. ***Additionally, the conflict in many parts of the country resulted in damage to essential public and private infrastructure including airports, seaports, warehouses, markets, roads, bridges, power stations, hospitals, schools, and residential area.*** Such infrastructure destruction had severe impact on the private sector activities and resulted in contraction of both sectors. As a result, the physical obstacles at seaports, airports and warehouses disrupted trade flows, and damaged roads and power supply lines caused production constraints as well as disruption of business activities.

Impact on the Labor Market

13. ***The labor market is in turmoil with the conflict having an impact on both supply and demand.*** The conflict, displacement, and physical destruction were the main factors behind the impact on the labor market. The scale of internal displacement has had a particularly strong effect. According to the UN Office for the Coordination of Humanitarian Affairs (UNOCHA),

3.3 million Yemenis have been internally displaced as of December 2016, resulting in lost livelihoods and jobs. An additional report estimated that 182,000 people fled to Djibouti, Ethiopia, Somalia, Sudan and other countries. (UNOCHA, Nov. 2016).

14. Businesses have shed a significant number of workers. The 2016 ILO report entitled "Yemen Damage Needs Assessment (DNA)" is based on a detailed survey conducted in three governorates: Sana'a City, Al-Hodeida, and Aden (Table 1). While not nationally representative, together these account for around 22% of the working age population. The report shows that the total employment in the three governorates declined by 132,000 (13 %) between March and December 2015. Although not representative, if this were replicated nationally that would equate to 600,000 total job losses. Some governorates may have had higher or lower job losses, but the scale of job losses indicated by these three governorates is significant. Given the high dependency rations of households, these job losses are likely to be keenly felt. Alongside the reduction in employment, there was also a decline in labor force participation of 159,000, largely a result of the increase in discouraged and displaced persons, including casualties.

15. The most affected sectors in terms of job losses are those that employed a large number of people, services and agriculture. Although the services sector is by far the biggest sector, 8% decline in that sector represents 60,000 job losses in those three governorates studied. Prior to conflict, the agricultural sector was the main source of livelihood for two-thirds of the population, but there has been a steep decline of 49.7% in agricultural employment in the three governorates studied. In some rural areas, people stop agricultural activities for safety reasons or to avoid the military mobilization. In most war-affected areas, hundreds of thousands of workers have lost their jobs and income due to damages to farms and other private sector facilities. This drastic drop in employment will likely have a lasting negative impact on the labor force in agriculture.

16. Construction has actually seen an increase in employment in the three governorates analyzed. This is driven by employment growth in Aden where some reconstruction activity has already started. Although construction job losses in other governorates may well have been deeper than in these three governorates but the experience in these three governorates suggests that once reconstruction begins it can drive employment quickly.

Table 1: Composition of and impact on employment by sector in Sana'a City, Al-Hodeida, and Aden

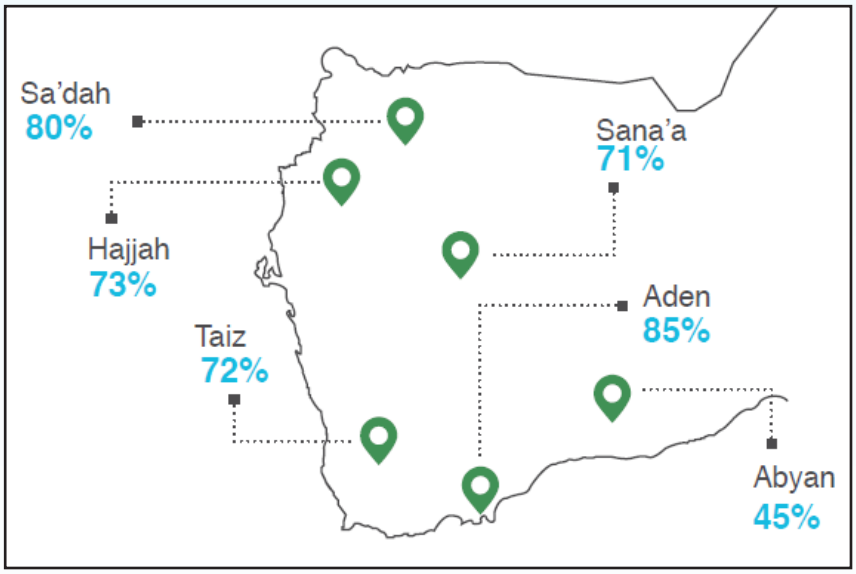
	2014 total	2015 total	Absolute change	Percentage change	2014 share	2015 share
	(thousands)			(percent)		
Agriculture	146.8	73.9	-72.9	-49.7	14.2	8.2
Industry	74.2	71.2	-2.9	-4.0	7.2	7.9
Construction	57.7	62.3	4.6	8.0	5.6	6.9
Trade	324.3	277.0	-47.2	-14.6	31.4	30.8
Transport	151.1	123.1	-28.0	-18.5	14.6	13.7
Other private services	86.1	100.1	14.0	16.3	8.3	11.1
Private Services	561.4	500.2	-61.2	-10.9	54.4	55.6
Public services	191.5	191.9	0.4	0.2	18.6	21.3
Services	752.9	692.1	-60.8	-8.1	73.0	76.9
Total	1 031.5	899.5	-132.1	-12.8	100.0	100.0

Source: ILO, 2016, Yemen Damage and Needs Assessment, Crisis Impact on Employment and Labor Market.

17. SMEs were more likely to lay off workers and skilled labor became scarcer. SMEPS found that 70 % of small and medium enterprises laid- off half of their workforce compared to 67 % of large firms releasing 32 % of their staff. As for micro enterprises, 38 per cent of them

shrank in size (Figure 2). The SMEPS survey also reports that skilled labor has been a long-term constraint for a quarter of medium and large businesses, but large enterprises reporting a shortage of skilled labor has risen to 58% of the total large enterprises. Medium, small, and micro enterprises have not reported significant changes in the extent of the skilled labor problem.

Figure 2: Workers laid off by area



Source: SMEPS, 2015, Rapid Business Survey, Impact of the Yemen Crisis on Private Sector Activity.

Impact on Access to Input Materials and Markets

18. The current disruption of internal trade resulting from obstacles, checkpoints, or damage on key trade routes has significantly disrupted business operations. SMEPS reported that more than three quarters of business owners face difficulties in gaining access to raw materials, spare parts, goods and components needed to operate their businesses. This is driven by both price increases and non-availability. About 80 % of the surveyed businesses said that their stocks were almost depleted. 83 %of businesses said that their core-traded commodities are not available because of the war (SMEPS, 2015). Traders and producers alike have been hit hard by restricted access to inputs. For traders in particular, the ability to access goods and inputs is a *sine qua non* of their business model.

19. The supply of inputs to the agricultural sector and food producers and markets has been particularly affected. The ongoing conflict resulted in a lack of inputs, a breakdown in markets, and reduced production. Inputs such as seeds, fertilizers and fuel as well as spare parts for machinery are all hard to obtain due to the breakdown of import markets, resulting in reduced local production. High transportation and energy costs due to insecurity and damage to transport infrastructure have also made it more difficult to get inputs to where they are needed, whilst also reducing post-harvest processing. This has also undermined markets by reducing the number of producers who can take

goods to market. On the production side, the shortage of animal fodder and veterinary services has led to the decline of livestock production, which is a main source of income for many rural families. Commercial farms and buildings critical to the rural sector (administration, market places, fish cooperatives and landing sites) have also been damaged. The disintegration of markets and the curtailing of their effective reach and breadth led prices of basic food and non-food commodities to rise by over 40 % compared to pre-crisis levels.[3] The total conflict-related losses and damages to agriculture, fisheries, and livestock are estimated to amount to about USD 3 billion (ILO, 2016).

20. ***In some areas, roads and local weekly markets have been physically blocked and occupied by armed militias.*** Participating in many of the biggest markets for agricultural products, especially in Hajja governorate, is now seen as a high-risk activity. Even in areas with less active conflict, some traders have complained of newly imposed restrictions by municipality and local authorities. Additionally, small traders report that the non-functioning of the central markets in different governorates has resulted in a number of small retail markets appearing on the city's suburbs, leading to higher business costs, higher prices for the consumer, and a reduction in the number of wholesalers. The lack of fuel, insecurity and inaccessibility of some governorates led to higher transport costs and disruption of trade, making it more difficult to access markets or agricultural supplies.

Impact on Access to Finance

21. ***Business operations have also been affected by disruptions to the banking sector.*** Businesses struggle, for example, to maintain inventory, which can be due both to problems of physical access to inputs, as described above, and to a lack of working capital. Evidence from Yemen suggests that working capital is a major constraint for firms even when goods are nominally available. As the banking sector is facing daunting challenges directly associated with the ongoing conflict, its own capital base is being consumed while the risks have multiplied, making normal financial services by the banking sector costlier, or simply not available. The SMEPS 2015 survey found that 73 %of businesses could not access credit, although traders had better access to credit than producers did. The number of functioning bank branches has fallen significantly. The solvency of Yemen's banks is also an issue while the government's own finance problems are also consuming the available credit. Non-availability of trade finance is another major constraint for importers as letters of credit are no longer supported by the Central Bank of Yemen (CBY) and private banks lack either the capital or are cut-off from their correspondent banking network, and as a result from the international financial market. The section on finance below details these challenges more extensively.

III. SECTORAL ANALYSIS AND POLICY RECOMMENDATIONS:

TRADE SECTOR

22. ***Trade is fundamental to the recovery and reconstruction of Yemen but relatively little is known about the current status of the trade infrastructure, institution, and services.*** Since the start

3 Food and Agriculture Organization of the United Nations, FAO, Integrated Food Security Phase Classification, 2016, IPC analysis - Summary of Findings

of the conflict, trade activities were reportedly affedted by destruction of trade infrastructure, trade restrictions from parties involved in the conflict, lack of security, and the absence of functioning regulatory institutions.

23. ***The trade sector's contribution to GDP in 2014 was 15 % according to preliminary estimates from a report commissioned by the Bank on the state of trade in Yemen.*** The trade deficit reached USD 10.4 billion in 2014[4]. China, Thailand, Saudi Arabia, and UAE were the most important destinations for Yemen's merchandise exports including oil in 2014, accounting for over 70 %of the total exports. China, India, Turkey and Saudi Arabia were the main sources of imports, accounting for about one third of total imports[5]. Agriculture products represented around 34 % of merchandise imports while oil and gas represented 90 % of exports. Most of the commercial trade flows were centered on four major seaports (Aden, Al-Hodeida, Saleef, and Mukhallah) and one land port, Haradh-Altuwal Yemen-Saudi land crossing.

24. ***Since the start of the conflict, trade activity has dropped sharply.*** A report commissioned by the Bank estimates that by 2015 when the conflict erupted the total imports had shrunk by 55 % compared to 2014, whilst the total exports had dropped by 51 %. According to recent estimates, the demand for non-essential products and services dropped by more than 50 %. The main remaining imports are food (about 50 % of the total imports), medicine (over 20 % of the total imports), and building materials (over 10 % of the total imports).[6] However, both food and medicine remain in critically short supply inside Yemen. Yemen imports 90–95 % of its staple foods, including 85 % of cereals, while local production accounts for around 20–25 % of overall food availability. As a result, prices have increased rapidly for imported staple foods and for local produce. About 14.4 million Yemenis are severely food insecure. According to WFP, Yemen is ranked as the 11th most food insecure globally[7].

Institutional Constraints

25. ***Even before the current conflict, the performance of Yemen in trade facilitation indicators was below the average for the region and underperforming in relation to Yemen's income level in 2014.*** The Customs Authority had been assessed as a target for assistance through a World Bank program although reform was also needed for a wider set of institutions engaged in trade support and regulation. The adoption of contemporary risk-based regulatory compliance practices was one step already identified to facilitate trade and improve export competitiveness. Access to and use of information technology to automate transaction processing was limited. The World Bank Logistics Performance Index (LPI), which measures countries' trade logistics efficiency, ranked Yemen 151st out of 160 countries in 2014 (Figure 3). Even before the conflict, the main obstacle to trade facilitation was the country's customs and infrastructure, most of which are operated by the state and affected by institutional and governance shortcomings. Similarly, in the 2014 World Economic Forum Global Enabling Trade Report, Yemen was ranked 131 out of 148 countries in terms of the quality of its trade infrastructure. Therefore, there is an urgent need to revive and reform the sector.

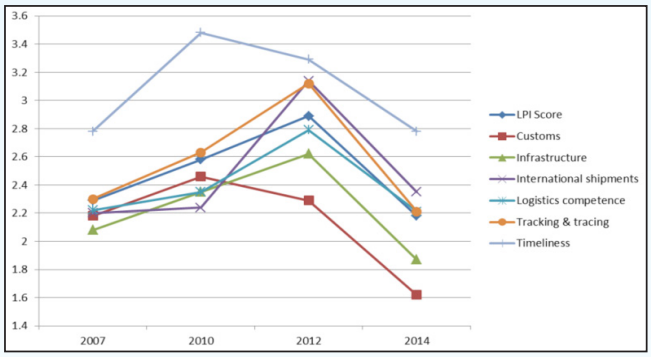
4 Information in this section is based on data collection and interviews undertaken to study the impacts of the conflict on key sectors in Yemen by Apex Consulting. In process.

5 World Integrated Trade Solution (WITS)

6 This is according to the Logistics Cluster at http://www.logcluster.org/ which monitors logistics in humanitarian situations.

7 https://www.wfp.org/countries/yemen/overview.

Figure 3: Logistics Performance Index for Yemen over time



(*Source:* World Bank, Logistics Performance Index (LPI

26. Conflict has only worsened this already challenging trading environment. The trade regulatory bodies at most air and seas ports, with the exception of Aden's airport and seaport, are now largely ineffective. They serve only to collect service fees but fail to carry out their administrative functions and on balance are likely to be a drag on trade. The conflict has allowed a range of questionable practices developed to fill the gaps in trade regulation and policy. Many of these practices may be difficult to replace when the conflict ends.

27. The country was already working from a very low base in regard to institutional capacity and application of global standards and practices. Outside of a handful of senior managers within the Customs Authority and Ministry of Finance, there was very limited managerial and technical capacity. Corruption within the institution became 'institutionalized' and was given some form of official mandate, in part to help smooth day to day processes.

Impact on Trade Flows

28. The conflict brought oil exports to a halt and has halved the export of other commodities. (Table 2) Hydrocarbon exports continued their sharp decline in 2015, furthering the drop that started in the year preceding the war. Hydrocarbon exports were totally suspended as early as April 2015 due to the departure of all foreign oil companies from Yemen. The closure of the land border with Saudi Arabia devastated local farmers and fishermen involved in the export and production for export of commodities such as fish, onions, bananas, and mangos. More broadly, it has affected local production by preventing access to essential agricultural production inputs, such as fertilizers, pesticides, vaccines, enhanced seeds, and machinery.

Table 2: Impact of the Conflict on Yemen's Critical Commercial Exports

Commodity (HS Code)	(Quantity (tonnes/metric tons			(Value (USD		
	2014	2015	YoY % Change	2014	2015	YoY % Change
(Crude Oil (2709	t 1,563,307	t 0.062	-100%	$1,271,479,238	$352[1]	-100%
(LNG (2711	t 106,416	t 0.1	-100%	$68,772,799	$3,385[2]	-100%
(Fish (0302	—	t 26,101	—	$114,077,136	$64,434,008	-43.5%
(Molluscs (0307	t 9,115	t 9,015	-1.1%	$38,020,561	$20,604,330	-45.8%
(Vehicles (8703	t 667	t 342	-48.7%	$215,933,490	$57,518,608	-73.4%
Total Exports[3]	**—**	**t 35,458**	**—**	**$1,708,283,224**	**$142,560,683**	**91.7%**

Source: UN Comtrade.

29. ***For imports, according to preliminary estimates in 2015, about a quarter of the country's much-needed imports could not be sourced.*** The undersupply of essential commodities is shown in Table 3. This decline in the flow of commodities into Yemen has affected the livelihood of all Yemenis, in both urban and rural areas who rely on imports to assist with food production, retail business and for basic needs, like fuel. The data for 2016 is expected to show a more dramatic decline.

Critical Commercial Imports

Commodity (HS Code)	(Quantity (tonnes/metric tons			(Value (USD			
	2014	2015	YoY % Change	2014	2015	YoY % Change	
(Wheat (1001	t 3,327,732	t 2,817,211	-15.3%	$1,060,312,372	$811,336,425	-23.5%	
(Sugar (1701	t 1,229,787	t 509,573	-58.6%	$583,802,429	$202,789,081	-65.3%	
(Rice (1006	t 432,826	t 443,348	+2.4%	$384,408,901	$313,329,632	-18.5%	
(Milk (0402	t 62,614	t 46,185	-26.2%	$285,967,991	$164,981,356	-42.3%	
(Palm Oil (1511	t 316,801	t 206,582	-34.8%	$296,011,387	$189,875,403	-35.9%	
Total Imports[4]	**5,369,760**	**4,022,899**	**-25%**	**$2,610,503,080**	**$1,682,311,897**	**-36%**	

Source: UN Comtrade.

Trade Infrastructure

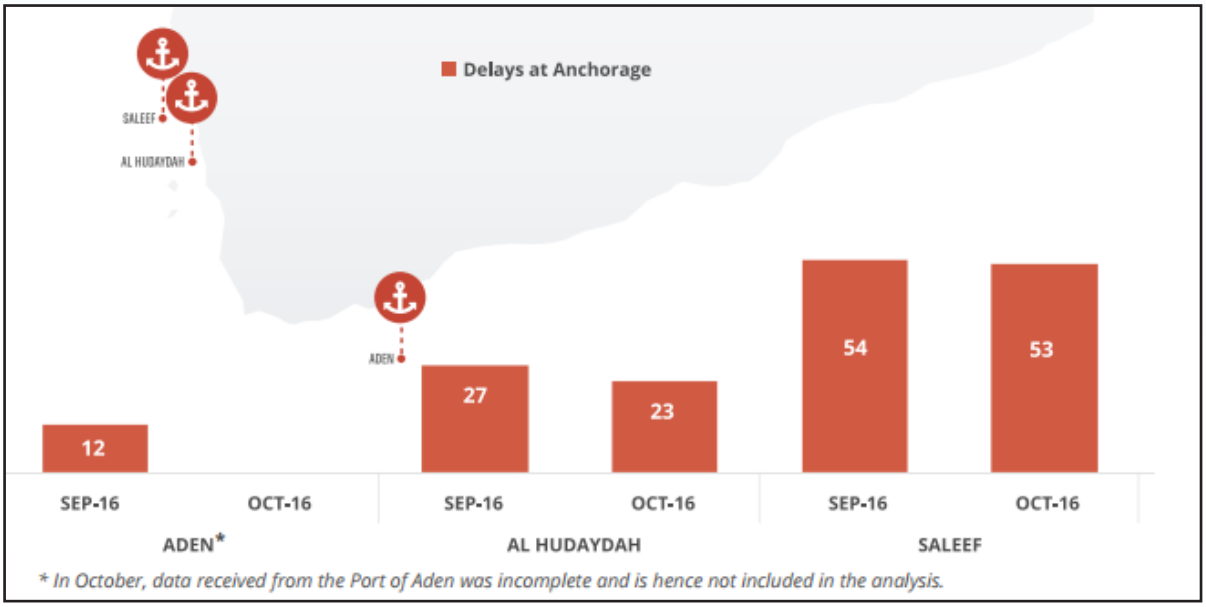
30. ***The functionality of sea and air trade infrastructure at sea and air is much reduced.*** Traded goods and commodities in Yemen move through several seaports, container terminals, oil terminals, and land border crossings, with most trade historically being channeled through Aden, Al-Hodeida, Saleef, and Mukhallah ports and the Haradh-Altuwal Yemen-Saudi land crossing. Since the beginning of the war, Yemen's primary ports have suffered substantial disruption to normal operation due to airstrikes and ground combat, which has resulted in temporary and permanent closures, damages to equipment and facilities, extended delays in loading and unloading vessels, extended power outages, personnel shortages, and security and safety threats. Aden and Mukalla sea ports remain operational but other vital ports, such as Al-Hodeida, Saleef, and Mokha sea ports suffered significant physical damage reducing their capacity by an estimated 25 to 50 % (Table 4). The most severely impacted ports by the war were the Port of Al-Hodeida, and the Haradh-Altuwal Saudi border crossing, which are major points of entry. According to the Customs Authority 2013 annual report, these two ports altogether accounted for more than half of the prewar revenue collected by Yemeni customs.

Table 4: Current Status of Yemen Ports

Port	Location	Purpose	Status	Under GoY control	Damage
Al-Hodeida	Al-Hodeida Governorate	Commercial and Oil Terminals	Operational	No	Yes
Aden	City of Aden	Commercial and Oil Terminals	Operational	Yes	No
Mokha	Taiz Governorate	Commercial and Oil Terminals	Closed	No	Yes
Saleef	Hodiadah Governorate	Commercial and Oil Terminals	Operational	No	Yes
Mukalla	Hadramout Governorate	Commercial and Oil Terminals	Operational	Yes	No
Ras Isa	Hodaidah Governorate	Oil Terminal	Closed	No	Yes
Belhaf	Shabwah Governorate	Oil Terminal	Closed	Yes	No

Source: Government of Yemen.

Figure 4: Average delays in entering ports in Yemen, October 2016



Source: http://www.logcluster.org/sites/default/files/logistics_cluster_yemen_snapshot_october_2016_0.pdf

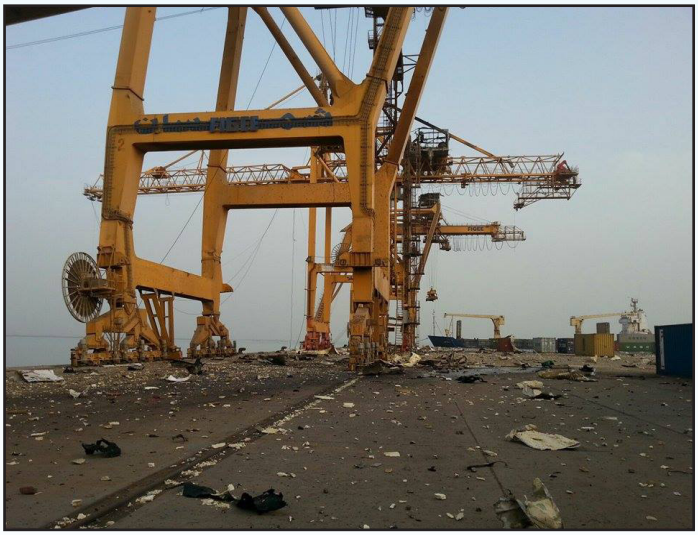
31. There are significant delays at anchorage in the ports of Aden, Al-Hodeida and Saleef.[8] In October 2016, the longest reported delays at anchorage were at Saleef port, with vessels waiting for berth an average of 53 days (see Figure 4, above). Delays at the port can be attributed to the very limited infrastructure with a two-berth capacity only, which impede rapid offloading times.

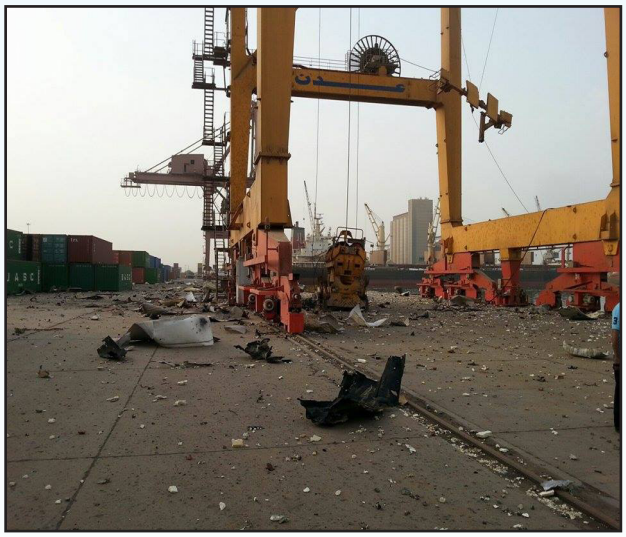
32. The port of Al-Hodeida has been severely damaged. The port has been the

8 The number of days corresponds to the average time that vessels spend at anchorage, waiting for berth permit.

main entry point of most imported commodities in the country including food and fuel imports. It is heavily used by commercial traders and humanitarian agencies to import essential food commodities into the country. However, due to the damage inflicted on the port infrastructure by airstrikes, the functionality of the port has been weakened. Delays in the port reached 24 days for vessels waiting to berth and another 4-5 business days to unload containers from and onto vessels compared to 24 hours before the port was damaged. Phone interviews with the Logistics Cluster[9] in Yemen reported that the port capacity utilization have decreased to 75% compared to 2012 operations. The current import volume of Al-Hodeida port totals 2.9 million MT of bulk food commodities (compared to 3.8 in 2012) and berths of vessels were 500 vessels in 2016 compared to 800 in 2012.

33. Other ports have suffered damage during the war, including the oil terminal and the refinery in Al-Buraiqah in Aden. Port of Al-Saleef has also suffered damage and has become dependent on forklifts and trucks to offload cargo, which are not readily available. Al-Saleef Port in Al Hodeida is now running at only 50% of its capacity.





Al-Hodeida Port on August 17, 2015. © 2015 Mersad News Agency

Additionally, the country's' main airports of Sana'a, Aden, Al-Hodeida, Mukalla, Sayuon, and Taiz were also impacted by the conflict. Sana'a international airport, the country's main international airport, suffered severe damage to its runway and infrastructure. The airport operations were suspended a number of times as a result of the control of Yemeni airspace by the Saudi led coalition and restrictions on flights operations. The airport remains closed since August 2016, and only UN operated flights are allowed at the airport. Sana'a airport was the main airport used by the country's financial institutions to transport foreign currency abroad, and was the main airport used by the private sector for air cargo shipments. Similarly, Al-Hodieda, Taiz and Mukalla airports remain closed, and only

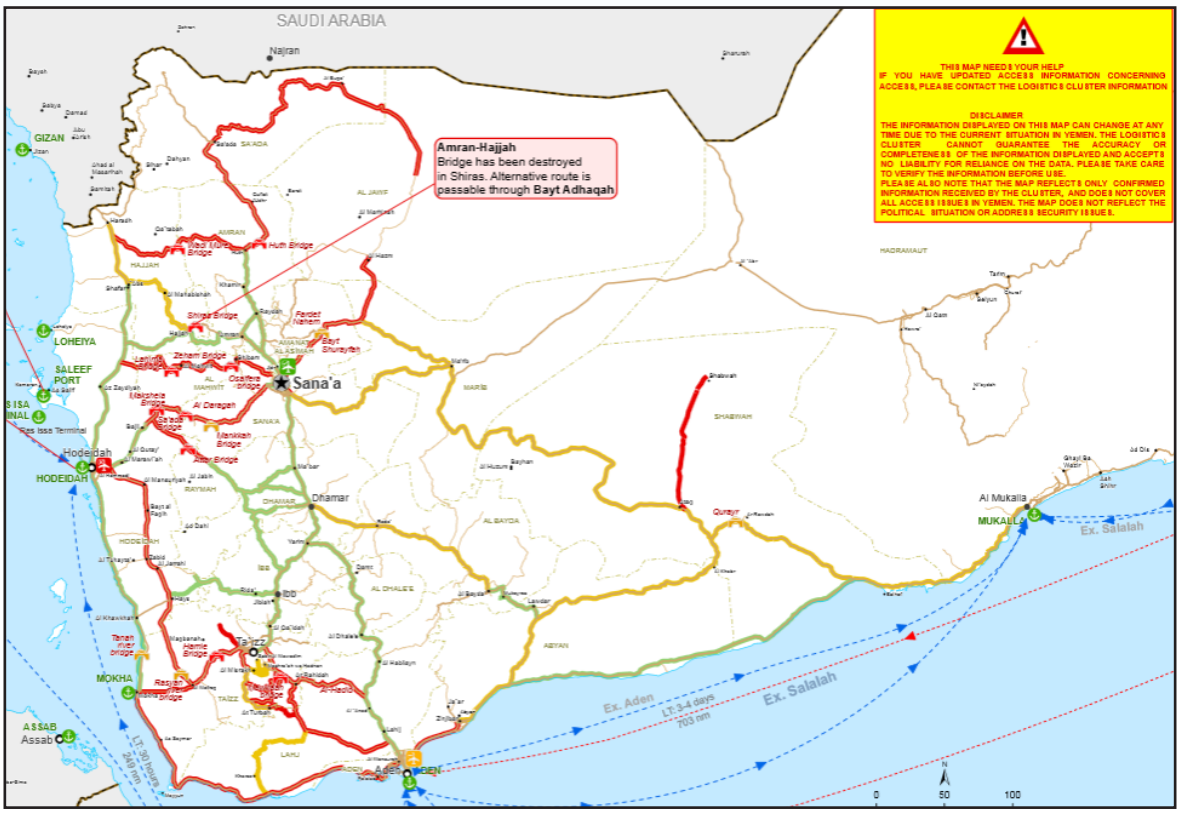
9 The Logistics Cluster is a coordination mechanism responsible for coordination, information management, and, where necessary, logistics service provision to ensure an effective and efficient logistics response takes place in humanitarian emergency missions. The UN World Food Program is the lead agency for the Logistics Cluster. Where there are critical gaps in a humanitarian response, WFP, as the lead agency, acts as a 'provider of last resort' by offering common logistics services.

Aden and Sayoun airports have resumed operations with international routes limited to Cairo and Amman.

Road Network and Land Ports

34. Domestic trade routes changed significantly during the war due to road closures, blockades, damages, mines, or detours, most notably the Haradh-Altuwal Yemen-Saudi land border crossing in Hajja governorate. It is still possible to reach all governorates of Yemen via alternative roads, albeit at a much higher cost, time, and risk. This summarizes the changes to the domestic road network. The Haradh-Altuwal area has witnessed ground combat between the two sides throughout the war, so the Haradh-Altuwal crossing has been permanently closed since about May 2015, except for a few limited irregular movements reported by some traders. Traders now have to take a distant alternative road to move Yemeni exports across Yemen-Saudi border through Al-Wadia'ah/ Sharurah border crossing, which is 565 km away from Sana'a (i.e., about 7-8 hours' drive on a regular passenger car), compared to Haradh-Altuwal, which is 288 km away from Sana'a (i.e., about 5 hours' drive on a regular passenger car). The Yemen-Oman border crossing, Shahn, is even further east. Moreover, movement of goods through these open border crossings has declined due to the complicated procedures required. (See Figure 4)

Figure 5: Yemen Road Access Map December 2nd 2016



Red = Road closed Yellow = Road difficult to access Green = Road Open

Source: *http://www.logcluster.org/sites/default/files/logistics_cluster_yemen_snapshot_october_2016_0.pdf*

Trade Costs and Trade Logistics

35. ***Trading goods and commodities in Yemen has become very costly.*** Several traders have reported that shipments that used to arrive within a month now take three to four months, increasing the cost of sea freight to local importers. Traders attribute the increase of cost of imports to significant delays in handling and discharging of cargo at Yemeni ports, the introduction of United Nations Verification and Inspection Mechanism (UNVIM), procedures for shipments going to certain ports in Yemen, and the soaring costs of insurance premiums for shipments to Yemen.

36. ***On May 2, 2016, the responsibility for cargo inspection on all Yemeni seaports was shifted to the UNVIM based in Djibouti.*** Consequently, all vessels carrying bulk and containerized commercial cargo to any of Yemen's seaports that are not controlled by the Yemeni government (i.e., Port of Al-Hodeida, Port of Mokha, and Port of Al-Saleef, and their associated terminals), must notify UNVIM upon departure from the port of origin of their cargo. UNVIM then decides if a cargo inspection is required and reroutes vessels to a mutually agreed meeting point within international waters for an inspection. If UNVIM decides that further inspection is required, vessels are rerouted to Djibouti where their entire cargo gets offloaded and screened. All related costs that result from these measures are borne by the shipping company in charge of the shipment. These procedures do not apply to Aden and Mukhallah seaports, which are considered under the control of the Yemeni government.

The private sector has raised concerns over the costs and delays of processing inspections by the UNVIM. The costs and delays are attributed by the importers and members of the Logistics Cluster to the inadequacy of inspection equipment (such as scanners) and resources available to the UNVIM, as well as the limited staffing and communication with shipping liners and commercial traders in the country.

37. ***Shipping insurance premiums have also risen steeply.*** According to interviews with sector actors (insurance), charter parties often include specific provisions relating to the outbreak of conflict. These agreements have special provisions known as war risk clauses. These charge additional insurance premiums of $500 per Twenty-Foot Equivalent Unit (TEU)and $1,000 per Flight Equivalent Unit (FEU) —in the context of Yemen—but which have not been renegotiated for shipments bound to the Port of Aden even though Aden has been declared a safe zone and is no longer under the scope of UNVIM. The cost of air shipping has also increased. Insurance companies now impose a 200 % insurance fee on Yemen airways. These interviews suggest that this premium is likely to come down steeply once peace returns and the risk of direct damage to shipments falls.

38. ***The cost of local transport to most governorates has also increased by as much as 100% compared to pre-conflict levels.*** This is attributed to the lack of security and some damage to roads. Additionally, drivers are reportedly required to pay royalties at checkpoints to militias. Longer trade routes, necessary to avoid conflict areas, are also a factor in increased local transportation costs. Most shipments now arrive at Aden's container terminal and then have to travel along route to reach Sana'a and other northern cities. In Aden, where the port is fully operational, the monopoly of the local transportation of goods by the Union Committee for Drivers of Heavy Transport Trucks, which is imposed on all

traders, has led to an increase in the costs of local transportation to the point that it can exceed the cost of the ocean freight service. For example, the cost of transferring goods within city limits, from Aden Container Terminal to Al-Tawahi, a district within Aden city itself, is YER 90,000 (i.e., USD 360). The cost of transporting goods from Aden to other governorates in Yemen reaches up to YER 700,000 (i.e., USD 2,800), whereas transporting goods from Aden to Taiz used to cost YER 150,000 (i.e., USD 600). In comparison, goods are transported from the Port of Al-Mukallah to other places within Hadhramaut for up to YER 40,000 (i.e., USD 160) and to other destinations outside of the governorate for up to YER 150,000 (i.e., USD 600). At the Port of Al-Hodeida, goods can be transported to places like Hajjah for YER 135,000 (i.e., 540), an increase of almost 100 per cent from the prewar rates, yet it is still cheaper than the rates charged for similar distances by about USD 2,260.

39. Overall, it appears that the increased cost of importing has affected wholesalers and distributors less than retailers. Wholesalers and distributors have been able to recover their costs by increasing the prices, leaving retailers with little room to adjust prices.

Trade Financing

40. The lack of trade finance is not only a major constraint to businesses in Yemen, it also poses a threat to food security for the country as a whole. Western banks have cut credit lines for traders shipping food to Yemen, fearing they would not be repaid due to the security problems and fragile financial system. Since the war started, they were increasingly unwilling to offer letters of credit, which guarantee sellers will be paid on time. Since September 2016, the Central Bank of Yemen suspended its underwriting of trade credit arrangements, essentially a foreign exchange swap facility, due to the interruption of the central bank's access to foreign exchange.

Additionally, even importers of staple commodities like rice wheat and sugar have reported difficulty in obtaining trade finance to continue importing. The CBY has not been able to fulfill its facilitating role as a guarantor for trade facilities since September 2016, when the CBY's managerial and operational functions were split between Sanaa and Aden along conflict lines. There are indications that international banks have already cut letters of credit to their Yemeni correspondent banks for traders shipping food to Yemen as they consider associated risks to be too high. Since the war started, the banks have been increasingly unwilling to offer letters of credit, which guarantee sellers will be paid on time. As a result, the four main food importers have informed Yemeni officials and the international community that due to their growing difficulties with the provision of trade finance, none of them will be able to import food into Yemen if the trade finance issues are not resolved.

41. These trade finance problems have had very real, dire consequences. In fact, in December 2016, the four main importers of staple food items (wheat, rice, and sugar), warned that as of January 2017 they would no longer be able to import any more shipments due to the trade finance constraints.

Sector Recommendations

42. The trade sector has been heavily affected by the conflict, and has a direct impact on the Yemen's socio-economic

resilience and its ability to recover. A number of short, intermediate, and medium-term measures will need to be taken, including:

• *In the short term and as a high priority, there is a need to facilitate trade financing for importers of basic food commodities to buy food from abroad.* This will require both the provision of funds and restoring the CBY's ability to finance trade. In the immediate term, and to mitigate the risk of famine, the government should consider a trade finance facility managed by a professional entity to relieve the immediate need for trade financing for basic food importers. Such a facility could be put in place by the international community and managed by a third party, such as a commercial bank or trade finance facility operating in the region. Once the conflict ends, an immediate priority should be to restore CBY's ability to provide trade financing so that a wider array of businesses can easily import.

• *Reestablishing a customs regime and restoring the minimum operations of the regulatory bodies to carry out their international responsibilities with regard to cargo security.* In the post-conflict period, it will take some time before the government is in any position to do this. Therefore, during the conflict, the UNVIM is expected to remain in place. In the short term, it is important to examine this system for opportunities to reduce delays and costs, with a view to knowing how this system could handle higher influx of trade in an immediate post-conflict period. The UNVIM could make use of a pre-inspection system at export ports to Yemen, or could eventually be replaced by such a system. In the intermediate term, and post the lifting of the UNVIM regime, a third party support for establishing the customs regime and conducting inspections could be provided to ensure efficiency and security.

• *Adopting a "triage" approach to the reconstruction of trade infrastructure and re-establishment of trade facilitation to revive trade activities and address the deteriorating level of food security.* Even while the conflict is ongoing, wherever and whenever it is possible, rebuilding critical trade infrastructure will be a priority for food security and provision of medicine to the population. In the immediate post-conflict phase, rebuilding a broader set of trade infrastructure should be a priority for all parties. The key priorities, based on historical trade activity and the current situation, will be to restore trade infrastructure at Al-Hodeida seaport and restore trade facilitation and operations at the Yemeni-Saudi Haradh-Altuwal land crossing as soon as the political and security situation allows.

• *In the medium term, undertaking a comprehensive diagnostic assessment of development needs of trade by concerned regulatory agencies and producing a comprehensive road map to guide reforms.* For the World Bank and other donors, investing in trade infrastructure and facilitation projects would be an obvious step in both the intermediate and longer term.

FINANCIAL SECTOR

43. The Yemeni financial sector is small by overall volume but enjoys a solid breadth. The banking industry comprises seventeen banks, distributed between nine domestic privately owned banks (51 % of the total assets), four State Owned Banks[10] (29 % of the total assets), and four foreign banks' branches (17% of the total assets) – see Table 5. Conventional banking represents 69 % of the total assets versus 31 % for Islamic banking. There are four Islamic banks, all domesti-

10 Two fully owned by the State and three majority owned by the State.

cally owned[11]. Despite the large number of banks, the market remains concentrated with four banks holding 60 % of the total assets. The Yemen banking sector also has a nascent microfinance industry benefiting from a conducive legal and regulatory environment. There are a dozen microfinance service providers, including several NGOs or programs, one non-profit company (Al-Awael), and two active specialized banks. Their collective outreach exceeded 100,000 active borrowers and 280,000 savers; they witnessed strong growth between 2011 and 2014.

placed in correspondent banks. Access to finance was also an important constraint for MSMEs, which accounts for the largest share of Yemen's enterprises (99 %). Yemen has one of the lowest levels of household financial inclusion in the MENA: 6 % of Yemeni adults have an account at a bank[12], which is both below the MENA average (18 %) and income group average (28 %). Only 1 % of Yemenis saved at a formal financial institution.

45. ***Total estimated assets in the financial sector were around 50 % of the GDP***

Table 5: Assets, Deposits and Equity of Banks in Yemen (2014)

Category	Assets (million YR	Asset Share	Customer Deposits ((million YR	Equity (million (YR
Private domestic banks 1,197,073		**54%**	**950,499**	**108,696**
Including Islamic banks	*690,480*	*31%*	*533,502*	*73,605*
Microfinance banks	*30,080*	*1%*	*11,530*	*9,336*
State owned	**632,647**	**29%**	**540,783**	**46,633**
Foreign banks	**373,190**	**17%**	**313,753**	**38,779**
Banking System (Million (YR	**2,202,911**		**1,802,034**	**194,109**
(Banking System (Million USD	*10,246*		*8,382*	*903*

Source: Central Bank of Yemen.

44. ***Before the war, the financial sector in Yemen had challenges to efficiently mobilize capital toward private sector development.*** The banking sector was characterized by very low levels of intermediation with bank deposits representing 27 % of the GDP (a share significantly below the MENA average of 76 %) and private credit amounting to only 6 % of the GDP (the private credit to total loans ratio has dropped from 46 to 28 % between 2009 and 2014, respectively). A significant fraction of the banking sector resources was invested in government bonds and

at end-2014, with banks representing three-quarters of the total assets in the sector (followed by the pension sector. This is one of the lowest asset-to-GDP ratios in the MENA region. The assets of pension funds were estimated at 5 % of the GDP, whereas those of the insurance sector amount to only 0.2 % of the GDP.[13] There is no capital market and the money market comprises only Treasury bill auctions and limited repo (repurchasing) operations. Interbank money or foreign exchange markets have not developed.

11 The State has a minority stake in these Islamic banks.

12 Findex 2014.

13 Compared to 0.7% in Egypt, 2.11% in Jordan, and 0.86% in Saudi Arabia.

Constraints in the Sector

Depletion of Foreign Exchange Reserves

46. ***Yemen faces an unprecedented liquidity crisis.*** The CBY has lost almost all its foreign exchange (FX) reserves. The loss of reserves led to a devaluation of the Riyal since March 2016, currently at around 320 YER per USD 1. While the official rate remained at 250 YER. The fast depletion of hard currency reserves, the degradation of trust between the public and the banking sector and the economic contraction have led to a severe liquidity crunch. The shortage started affecting the physical stock of banknotes, which prompted the CBY to reintroduce damaged banknotes, with limited results though[14], since these notes are rejected by most merchants.

47. **Despite a large grant from the IMF (USD 0.5 billion in July 2014) as well as a large credit from Saudi Arabia (USD 1 billion in 2013), foreign reserves had sunk from USD 5.4 billion at the end of 2013 to USD 0.5 billion by end-December 2016 (i.e. less than a month of imports).** In December, the Riyal was traded on the black market at 320 YER to the US dollar, a 25 % differential from the new CBY's official rate. Lack of access to foreign currencies has constrained import activity and has a direct effect on availability of basic commodities and inputs.

Impaired ability of the central bank to perform core functions

48. **The conflict has led to a de-facto partition of the country into two territories with separate authorities.** This led to the emergence of separate central banks, which significantly undermined core functions including: the conduct of monetary policy, the management of the exchange rate, the protection of depositors (through banking supervision, lender of last resort and crisis resolution) and the continuity of core payment system functions (clearing and settlement; liquidity management; oversight).

Weak Banking Sector Solvency

49. ***The actual solvency of the banking is likely to be severely affected by a growing number of rising threats.*** During the summer of 2016, the World Bank, the IsDB and the AMF approached the CBY to get access to banking sector data in order to run basic stress test exercises to simulate the actual solvency ratios of the banks. Given the current crisis, this technical assistance could not be put in place. However, in the absence of data, the following elements should be taken into account to assess the current solvency situation:

- *Adjustment of a key solvency parameter.* Although the banking sector solvency seemed high by international comparison before the war, it was largely artificial to the extent that the (growing) assets in government securities continued to benefit from a 0% risk weighting in the calculation of solvency ratios. This weighting has become clearly inadequate given the current country risks (Yemen is rated CCC according to Dagon, a Chinese rating agency). A minimum of 100 % risk weighting on government bonds would correspond to the current situation.
- *NPLs' increases.* Reported NPL ratios have markedly increased from 14 % (already a high level by regional comparison) to 25% between 2009 and 2014 (see table 5). This increase is mainly due to i) a base effect (credit to private sector is declining in real terms), ii) a frozen recovery process (which is often the case in times of crisis), and

14 Some logistic issues have also severely impacted the delivery of new notes from Russia (where the provider of bank notes is located).

iii) the emergence of new NPLs due to the political and security context. It is expected that the NPL ratios, which are likely to be underestimated (if not misreported), will continue increasing in 2016, reflecting these issues: i) the continuation of destruction or damage of assets, ii) frequent business cycle disruptions linked to the shortage of Riyal and hard currencies and iii) the Riyal devaluation.

• *Over-exposure to large related party transactions.* Given the concentration of the industrial and business fabric in the hands of a few large business groups and the limited diversification of sources of external funding, there are close ownership ties between domestically owned banks and large trading, construction, and manufacturing firms. This translates into three potential issues: i) the risk of abuse of depositors' money, ii) the risk of artificial capitalization[15], and iii) the fact that these loans represent a significant share of the regulatory capital.

50. The combination of those three elements allows thinking that most banks in Yemen have a solvency ratio below 8%, which is the internationally recognized minimum capital adequacy ratio.

Table 6: Financial soundness indicators

(% in)	2009	2010	2011	2012	2013	2014
:Capital Adequacy						
Capital Base to Risk weighted assets	14.6	20.2	24.3	29.6	26.4	24.3
:Asset Quality						
Nonperforming Loans to Total Loans	13.9	17.7	21.2	25.5	21.7	24.7
Loan Provisions to Nonperforming Loans	70.3	57	70.6	76.2	71.4	72.4
:Earnings						
Return on Average Assets	0.9	1.3	1.5	1.2	1.5	1.3
Return on Average Equity	9.6	14.1	14.2	13.6	18.9	15

Source: Central Bank of Yemen.

Some banks may already be insolvent (negative capital).

Severe Restrictions in Correspondent Banking Relationships with Yemeni Banks

51. CBRs correspond to the provision of banking services by one bank to another. The restriction of CBRs is a global trend. In the case of Yemen, this trend, which started before the war, took a more problematic spin given the level of perceived money laundering/financing of terrorism (ML/FT) risk by a number of foreign correspondent banks. Despite the issuance of some anti-money laundering/countering the financing of terrorism laws in 2010 and 2012, this risk was rapidly deemed unmanageable and most foreign banks terminated their CBRs. The termination of CBRs severely affects the delivery of key products and services (international wire transfers, trade finance operations, and remittances) identified as being critical for the functioning of an economy.

15 For example, a bank can lend to a related third party who can then participate in the capital increase of the bank.

Microfinance Institutions impacted by high NPLs

52. The conflict has also put all MFIs under severe pressure. Borrowers' repayments have been seriously affected (especially in conflict areas) due to various reasons including displacement of population (3.1 million people were displaced since the beginning of the conflict), basic commodities high prices, and severe disruption in income generating activities. Physical branches have been destroyed, paralyzed and in certain cases closed. A study conducted in early 2015 by the Social Fund for Development (SFD) reveals that MFIs managed to keep a satisfactory level of performing loans (the Portfolio at Risk was even reduced from 2.1% in 2014 to 1.6% in February 2015). MFIs have certainly become more selective since the number of active borrowers was unchanged (approximately 120,000 between 2014 and 2015) while the number of active savers continued growing (from 622,000 to 660,000). However, MFIs portfolio quality deteriorated during the crises. The PAR[16] reached 11% of the outstanding gross loan portfolio of 2011 – 2012 affected by the unrest that swept Yemen in 2011. In the following years (2013 – 2014) the PAR was enhanced and dropped to 2.2% due to the partially stable situation in the country. In 2015, the PAR has increased to the highest level 29% out of the outstanding gross loans portfolio in August 2015.

Weak Intermediation Capacity

53. The intermediation capacity of financial institutions (banks and MFIs) is expected to be significantly lower at the end of the conflict. Banks and non-banking financial institutions will be facing a multitude of constraints restricting their ability to finance the needs of the economy. They will have to i) deal with a large number of non-performing loans, ii) increase their capital, and iii) and rebuild minimum liquidity buffers. On the credit demand side, many firms and individuals will have lost their assets (including tangible ones such as real estate, which is by far the preferred form of collateral in the banking sector in Yemen). In addition to these cyclical effects, financial institutions will remain severely constrained by a series of structural roadblocks concerning the financial sector infrastructure, chief among these are the poor bankruptcy and collateral regimes and the absence of credit information systems and deposit insurance schemes.

Sector Recommendations

54. Before the war ends: address trade financing to ensure imports of essential food commodities. The four main staple food importers in Yemen have recently informed Yemeni authorities and the international community that they are no longer able to import food as of March 2017 due to the inability of the CBY to fulfill its role on the provision of foreign exchange for trade financing. In line with the recommendation in the trade section, the CBY urgently needs to be supported to return to its trade financing role. If this is not possible in the immediate term, a trade finance facility could be considered to help importers get the letters of credit required to bring in vital imports such as food. Once the conflict ends, an immediate priority should be to rebuild local capacity to provide trade financing so that a wider array of businesses can easily import.

55. Short term measure #1: Restore the financial system's core institutional framework should be considered as a top priority as it lays the foundation

16 Portfolio at risk. It corresponds to the proportion of an MFI›s total gross outstanding loan portfolio that is at default risk (usually past due 30 days).

for Yemen's economic and financial recovery. This would include providing advisory/capacity building services to support the resumption of the following core central bank functions: liquidity and cash management; foreign exchange reserves management; payment systems; sovereign debt management; banking regulation and supervision (including resolution and AML/CFT monitoring and enforcement). Restoring those basic functions would also help to restore domestic and international confidence in the financial system, contain inflation and preserve national currency exchange rate. The support should be prioritized as follows: i) design and implement solutions to increase financial system liquidity, and ii) resume cash, foreign exchange and sovereign debt management. These functions are sine qua non conditions to resume vital financial flows including payments of salaries of civil servants across Yemen, collection of taxes and payment of interest on sovereign debt.

56. ***Short term measure #2: Conduct a Rapid Financial Sector Stability Assessment.*** It is expected that the lack of confidence of the depositors in the banking sector would remain an issue, if banks' solvency is not quickly restored after the war. Without the return of deposits, banks would remain unable to deliver basic services such as salary payments, transfers and credits. Since there is no accurate assessment of the actual weaknesses of the Yemeni banking and MFI sectors, it will be critical to conduct, soon after the war ends, a rapid evaluation of their solvency.[17] The priority should be given to i) the conduct of a Quality Assessment Review and ii) the assessment of the shareholders' capacity to quickly mobilize fresh capital. The objectives of these assessment would be to help the CBY to decide which financial institutions should be restructured, merged or liquidated (with the secondary objective to facilitate the emergence of 3-4 leading financial institutions and address the issue of the excessive fractioning of the supply-side) and to select financial institutions which could benefit from exceptional liquidity support the the Central Bank in its quality of lender of last resort.

57. ***Short term measure #3: Depending on the severity of the shock, a public-private Financial Sector Restructuring Agency (FSRA) could be created to support the authorities in their effort to restructure the banking sector.*** The mandate of this institution would include the following:

- Inject capital in financial institutions (banks and microfinance institutions) that are deemed viable with a view of restoring their solvency and accelerating their recovery process;
- Create a Deposit Insurance Scheme to help the CBY to restore public trust in financial institutions;
- Provide technical support to fragile financial institutions to facilitate their restructuring. This could also involve technical assistance to the CBY to facilitate complex operations such as mergers, liquidations, or creation of bad banks;
- Provide wholesale facilities (including guarantees) to eligible financial intermediaries (banks, microfinance institutions, venture capital) in order to inject liquidity and facilitate the resumption of credit and equity finance toward the private sector. Current SFD financial intermediation activities should be then transferred from the FSRA (which would at the same time clarify the role of SFD, which currently

17 Similar missions were carried out in the region: Palestine in 2008, Libya in 2012, and Iraq in 2012.

cumulates many potentially conflicting development roles); and

- Provide technical assistance to financial institutions to perform sound NPLs restructuring.

58. ***Medium term measure #1: Reverse the de-risking trend to reconnect the Yemeni banking system to the rest of the world.*** Since the resumption of CBRs, linked operations (international wire transfers, trade finance operations, and remittances) would be essential in the context of a post-war reconstruction program, a particular emphasis should be put on the measures aiming at reversing the "de-risking" trend. To do so, Yemen will need to demonstrate a high-level political commitment to reconnect Yemeni banking to the rest of the world and show the effectiveness and technical compliance of its AML/CFT system with the updated international standards. With regard to effectiveness, which was considered poor before the war, Yemen must conduct a National Risk Assessment, developing domestic inter-agency coordination, and ensuring that financial information will be effectively used in the investigation, prosecution and adjudication of ML/FT cases. With regard to the compliance, specifically for preventive measures, Yemeni authorities will need to ensure that banks and financial institutions as well as banking supervisors and designated professions (lawyers, notaries, etc.) implement a risk approach for customer due diligence (CDD), politically exposed persons (PEPs), identify beneficial owners of bank accounts and businesses.

59. ***Medium term measure #2:*** Strengthen/sustain CBY banking supervision, lender of last resort function, ability to design/implement debt resolution mechanisms and bank recovery/resolution plans.

60. ***Long term measure: design and implement a comprehensive Financial Sector Development Plan.*** With the support of the International Financial Institutions, the Government of Yemen will have to design a financial sector development road map providing the main transformations to be implemented over the medium to long term toward a more efficient banking sector and MFI industry.

Construction Sector

61. ***The Yemeni construction sector plays an important role in Yemen's economy, in terms of contribution to growth as well as for employment.*** The quick recovery of the construction sector will be critical for Yemen's overall recovery. The industry is the fourth largest employer in the country, accounting for 9-19 % of the total labor force and employs around half a million semi-skilled, skilled and technical professionals in housing[18], roads, water & sanitation and public work projects. The sector is estimated to include 800 to 1000 private firms with the vast majority being small contractors. The construction sector contributed 6 % on average to real GDP from 2011 to 2014, amounting to 22 billion Yemeni riyals in 2014.

62. ***The sector quadrupled during the 1990s and 2000s, but it has been shrinking significantly since the onset of this decade; by 2014, in just four years, the sector's size had shrunk by over 40%.*** Public expenditure has contributed significantly to the sector's real growth, especially during the 2000s. Beyond public investment, the sector is supported by private economic activities: especially by (1) trade, (2) transport and storage, (3) manu-

١٨ According to the 2016 ILO Yemen Damage and Needs Assessment.

facturing, (4) real estate and business services, and (5) financial institutions. These five sectors altogether provide essential support services, such as the import of construction and building materials, machinery, and equipment; the local transportation and storage of construction and building materials; the local production of cement and brick; the allocation and development of land to meet local demand for affordable housing and commercial buildings; and offering credit facilities to construction projects.

63. ***Pre-crisis, infrastructure constituted the largest demand element for the construction sector in Yemen.*** In the infrastructure sector, the main focus was on road construction (particularly rural roads), road rehabilitation, water supply and sanitation, public works projects (mainly on the health and education sectors), urban transportation and power supply projects. Highly specialized and technology-intensive industrial projects are limited to the oil and gas sector and development projects in Hadramout, Marib and Shabwah governorates. In the real estate sector, there were also growing construction activities, mostly for residential housing projects, some of them drove also infrastructure development.

Constraints in the Sector

64. ***The construction industry in Yemen has been facing severe technical, institutional, legal and financial challenges prior to this current conflict.*** While the sector growth in the 1990s and 2000s has been solid, it lacked sector modernization, vision, and proper regulatory companionship setting and defending adequate technical or market norms. The shortage of experienced engineers, supervisors and skilled workers has traditionally been a major problem in the sector. This is in spite of the fact that Yemen produces about 300 new graduate engineers every year. The problem of poor human resources is compounded by the fact that Yemen has not been able to develop and implement standards for design, construction and supervision of sustainable construction projects in line with international industry standards.

65. ***The engineering consulting industry is also weak with limited access to training and skill development.*** Due to incomplete institutional sector governance (see above), it also suffers from limited opportunities for joint ventures or other collaborations with international consulting firms, which could help to overcome technical and financial obstacles. The local consulting enterprises do not have the requisite engineering and technical capacity for construction supervision, mainly because of shortages of qualified and experienced technical personnel. The role of local consulting firms is largely limited to pre-feasibility studies, field surveys, and data collection.

66. ***Since the start of current crisis in Yemen in March 2015, many contracts were suspended or cancelled citing force majeure, security risks and unavailability of building material.*** With the exception of Aden, construction activities have been almost entirely suspended, except for private housing construction. Public expenditure on infrastructure and construction projects has been entirely suspended, except for very limited urgent renovation public works. Very high public deficit, and poor management of public finances have led to a situation where the government became entirely unable to pay its arrears to contractors. Additionally, the donor community supporting Yemen's development plans has either reduced

their support, suspended their operations, or completely stopped financing development projects and operations in Yemen.

67. ***Many qualified workers have left the market with companies that went out of business.*** Overall employment on the sector is reported to have been negatively impacted. Many contractors were forced to shut down and reduce their labor force due to complete stoppage of work activities, non-payment of work delivered, and consequently accumulating increasingly arrears, by suppliers as much as by contractors. However, in some governorates, such as Al-Hodeida, Sana'a and Aden, the sector has actually seen an increase in employment. This is driven by employment growth in Aden where some reconstruction activity has already started.

68. ***Prices of construction and building materials have spiked during the war, due largely to the increase in domestic transportation cost and added contractual uncertainty as well as risks.*** For

Table 7: Imports of construction & building materials

Commodity HS) (Code	(Quantity (tonnes/metric tons			(Value (USD		
	2014	2015	YoY % Change	2014	2015	YoY % Change
Cement ((2523	t 1,356,711	t 887,472	-34.6%	$83,935,467	$61,065,843	-27.2%
Iron & Steel ((72	—	—	—	$813,608,447	$272,695,193	-66.5%

Source: UN Comtrade.

Table 8: Wartime status of Yemen's main cement plants

Cement Factory	Production Capacity tonnes per an-) (num	Governorate	Sector	Current Status	Damage
Amran Cement Plant	t/a 1,000,000	Amran	Public	Closed	Yes
Bajel Cement Plant	t/a 750,000	Al-Hodeida	Public	Closed	Yes
Al-Barh Cement Plant	t/a 1,500,000	Taiz	Public	Closed	Yes
Al-Wataniah Plant	t/a 1,500,000	Lahj	Private	Resumed production	Yes
Arabian Yemen Cement Company	t/a 1,500,000	Hadramout	Private	Running	No
Batais Cement Plant	t/a 1,600,000	Abyan	Private	Closed	No
Al-Wahda Cement Plant	t/a 1,100,000	Abyan	Private	Resumed production	No

Souce: Original data collection undertaken for this note by Apex Consulting.

example, the average prewar price of one bag of cement (i.e., 50 kg) was YER 1,300, whereas its average price today is YER 2,200, an increase of about 70 per cent. Similarly, the average of prewar prices of one ton of iron was YER 140,000, whereas its average price today is YER 220,000, an increase of 57 %. Prices of wood increased by over 80 % during the war, from YER 60,000 per ton to YER 110,000. In several cases, key informants have reported that the increase in prices was much larger, reaching 100 % or more, such as in the case of gypsum, which has increased from YER 600 to YER 1,500. Construction companies located in governorates where conflict is most severe (such as Taiz) have also reported theft and damages to their machinery and equipment.

69. ***Imports and local production of construction and building materials have been limited due to the impediments to trade, suspension of public sector investment, donor financed construction activity, and damage to local production facilities.*** Trade data show a decrease of 27 % in imports of cement and a 67 % decrease in imports of iron and steel from 2014 to 2015. Local cement production has dropped significantly during the war due to targeting of such production facilities, and local steel plants have halted production. Other sub-sectors of the small manufacturing industry supporting the sector have also been impacted (see Tables 7 & 8). In addition to the substantial drop in demand for products such as bricks and aluminum works, these industries were also affected by the local fuel crisis and loss of electricity.

Financial institutions and the role of the CBY

70. ***The financing of contractors through commercial banks, by obtaining bid bond and bank guarantees for advance payment and performance guarantees, has stopped.*** Commercial banks in Yemen are unable to provide working capital, bid bonds, and guarantees required by contractors, who generally depend on private resources to finance their business. Arrears owed to contractors and suppliers by the government contracts represented by the CBY had been an issue for many years. Arrears were estimated to exceed 300 million USD in 2012, most of which are owed to the construction sector, and payment against those arrears was minimal during the 2012-2014 period and came to a complete halt since the start of the conflict. Access to cash and credit lines from commercial banks is very limited and costly.

Sector Recommendations

71. ***Support the construction sector to help it to retain current manufacturing capacity and employment, speed up reconstruction efforts, and to help control inflation in building materials when reconstruction begins.*** It is common for destructive conflicts to be followed by large construction booms. A construction boom often results in a spike in the cost of construction. In most countries that have undergone major reconstructions, construction costs have increased by 40 to 60 %. The increase of costs are usually derived from labor cost increases, construction material cost increases (mainly from non-tradable goods) or increases of fuel and transposition rates. In Yemen there is a risk of similar inflation in the construction market once reconstruction begins apace. The Government and donors should explore ways to ensure early preparation for reconstruction. This could involve looking at how to encourage firms to produce construction materials in preparation for reconstruction rather being caught short

once high demand hits and efforts to rebuild the productive and financial capacity of construction materials producers and construction service companies. Initial analytical work to assess demand for reconstruction would support efforts to build understanding and confidence in the sector's recovery. This could then feed into a donor reconstruction fund to fast-track reconstruction, possibly even before conflict has ended in all areas.

72. ***For post-conflict situation in Yemen, make use of country systems to promote fast-track procurement of services and materials.*** Create a mechanism for processing and expedite public procurement and tendering in order to facilitate the reconstruction efforts. Such mechanism should i) minimize contractual risks, and delays in payments; ii) enforce provision of liquidated damages (LD), where appropriate and cancel non-performing contracts; and iii) Promote job creation through the use of labor-intensive construction technologies, especially in rural infrastructure development projects. In addition, donors should support efforts to improve capacity of local contractors and other construction sector actors and standards in the construction sector.

IV. Key Recommendations For Accelerating Reconstruction & Private Sector Recovery

The Role of the Private Sector in Socio-economic Resilience and Recovery

73. ***The Yemeni private sector represents a prime opportunity and an indispensable channel for the support of the recovery, socio-economic resilience, and rebuilding of Yemen.*** The reconstruction that has begun in Aden governorate has already resulted in increased employment in the private construction sector, demonstrating the potential for rapid impact. More broadly, as a primary providers of goods, services, and jobs in Yemen, a quick recovery in the private sector could help to put hundreds of thousands of people back to work across the country.

74. ***Yemeni communities' ability to recover from the effects of the war, to an extent, can be gauged by the vibrancy of its local businesses that provide goods, services and jobs to the community*** – from the bakery or internet café down the street to the local workshops and banks. But these enterprises, particularly the smaller ones, have limited means to cope with the effects of conflict, and consequently many reduce or even cease their business activities outright. They and their workers then may join the ranks of the unemployed and discontented. Jobs, goods, and services are lost to the community, further contributing to fragility and insecurity. Conversely, a robust recovery, which generates equitable growth and job creation, is an important factor in achieving a durable peace. Key initiatives to support the role of the private sector in resilience and recovery are outlined below, including those of particular importance today, even as the conflict is ongoing, and in the early post-conflict phase.

Recommendations
Short term (3 -6 months)

1. Support the CBY to restart trade financing and, if need be, in the interim and on an emergency basis, directly provide trade financing to importers of essential food commodities to buy new food stocks from abroad. Every effort should be made to help the CBY to restart

trade financing. However, if this cannot be achieved in the short term, a trade finance facility is urgently needed to help importers to get the letters of credit required to bring in vital imports such as food as well as reconstruction and the resumption of businesses more broadly. This will require both the provision of funds and a well-designed facility managed by a professional and competent entity and should begin as soon as possible, even before the conflict is over. Such a fund could be managed by an international organization, or a commercial third party. Once the conflict ends, focus should again return to re-forming the CBY and rebuilding its capacity to provide trade financing so that a wider array of businesses can easily import.

2. Reverse the de-risking trend to reconnect the Yemeni banking system to the rest of the world. The resumption of operations that rely on the Central Bank (international wire transfers, trade finance operations, and remittances) will be essential in the context of a post-war reconstruction program, a particular emphasis should be put on the measures aiming at reversing the "de-risking" trend. To do so, Yemen will need to demonstrate a high-level political commitment and show the effectiveness and technical compliance of its AML/CFT system with the updated international standards. With regard to effectiveness, which was considered poor before the war, Yemen must conduct a National Risk Assessment, develop domestic inter-agency coordination, and ensure that financial information will be effectively used in the investigation, prosecution and adjudication of ML/FT cases. With regard to the compliance, specifically for preventive measures, Yemeni authorities will need to ensure that banks and financial institutions as well as banking supervisors and designated professions (lawyers, notaries, etc.) implement a risk approach for customer due diligence (CDD), politically exposed persons (PEPs) and identify beneficial owners of bank accounts and businesses.

3. Support development of efficient third-party verification and inspection regime to facilitate trade during the conflict in the immediate post-conflict period. Alongside trade infrastructure investment, Yemen will also likely need support in reestablishing its customs regime and in particular with carrying out its international responsibilities with regard to cargo security. In the immediate term, a third party support for establishing the customs regime and conducting inspections, including possible improvements to the UNVIM system, could be provided to ensure efficiency and security.

4. Support the construction sector to help to retain current manufacturing capacity and employment in the construction sector and to help to avoid inflation in construction materials when reconstruction begins. There are a variety of ways through which the Government and donors can achieve the following s:

- Support productive and financial recovery and capacity building of existing Yemeni construction firms to prepare now for a role in reconstruction, for example, through addressing financial constraints created by non-payment of arrears.
- Assess approaches for bringing forward manufacturing jobs associated with selected construction inputs (e.g. create manufacturing jobs now for standard construction materials).
- Create a donor- funded financing facility to finance reconstruction

once peace returns to build confidence in the construction sector.

• Establish a skills training facility to respond to private sector demands in both manufacturing and construction. A skills gap analysis focused on future construction sector needs in Yemen informed by likely compositional changes in its post-war workforce could identify critical skill bottlenecks that could be filled by training IDPs in advance of their return home. This would support a faster reconstruction process and faster rate of return for IDPs as a consequence.

5. Support Micro, Small and Medium Enterprises (MSMEs) and Entrepreneurs, including farm and non-farm activities, through recovery grants. MSMEs are a critical part of the Yemeni economy both in terms of provision of services and basic goods and in terms of employment. In recognition of this, the World Bank, as a part of ongoing emergency support to Yemen, has launched a program of small grants for MSMEs in sectors related to food security such as agriculture and fisheries. Given the importance of the MSME sector, expanding such a grant program to a wider range of MSMEs, and in particular those that provide basic services and utilities, is a logical next step. A recovery grant program would help MSMEs to generate employment opportunities, rebuild their inventory, equipment, and upgrade skills. In particular, providing grants to MSMEs to rapidly reconstitute their working capital is likely to be critical, since too long delays may force these firms to close. Expanding the grants program in this way could begin whilst the conflict is still ongoing and accelerate in the post-conflict period. These grants could be in the form of cash or in-kind grants and would need to be coordinated with IDP resettlement programs to ensure the right mix of incentives and sequencing to support the recovery of communities hardest hit by the conflict. IDPs are more likely to return as part of a community, rather than as households or individuals and a grants program could create a clear incentive at the community level for return. This in turn should reduce the risk to individual households from return and help foster recovery. Specialized technical and financial assistance would also be provided for young entrepreneurs under this program. For the agricultural sector, the program would focus on assistance to affected small-scale farmers, fishers, or livestock producers whose activities were disrupted or affected by the conflict through a support program to support the return of farming and fishing households to their productive activities. This should be launched in close coordination with IDP support and resettlement programs, since the incentives must be balanced to promote the safe and sustainable return of households to their farms/ fisheries. This should include a farm restoration support package (inputs such as seeds, seedlings, and fertilizers, assistance to restore land and irrigation systems, and cash assistance to sustain the household until cultivation is restored). Farming and non-farming MSMEs should be linked through supply chain based approaches that support small-scale goods or service providers or post-harvest processing enterprises related to the agriculture / fishery / livestock sectors. It should also include community-based assistance to restore local markets and access to markets beyond the local community. There may also be a case for expanding this form of recovery grants to MSMEs that have already been forced to close and wish to re-open or even to entrepreneurs who wish to start a business. This would also allow for a more explicit

and easier targeting of businesses run by women through this grant program, which is likely to be particularly important given the tendency for construction businesses to be male run.

6. Provide the analytical economic underpinnings for peace. A final recommendation in the immediate term is to conduct analytical work even before the end of the conflict with the aim of contributing an economic perspective to the peace process. This is particularly relevant because the sustainability of peaceful settlement will be in part dependent on the sustainability of the economic settlement underpinning it. Economic analysis provided by the World Bank made important contributions to the Dayton Accords as well as to the negotiations and coordination on trade during the Israeli withdrawal from Gaza. In the case of Yemen, this analytical work should cover two themes. First, to highlight in economic terms the cost of war in terms of lost private sector activity, destroyed capital, weak investment, and disrupted trade. This could take a similar form to the Economic and Social Impact Assessments which were conducted in Lebanon among other countries. Related to this, the potential 'dividends' from peace could also be calculated to further build the case for peace. Second, any peace agreement will necessarily include elements of a new or revised economic order. Yemen's future trade relations with its neighbors are likely to have a significant impact on its ability to recover and maintain stability. An initial road map for trade relations should be included as a part of a sustainable peace plan. Similarly, the question of labor mobility for Yemenis to work in GCC countries is likely to be a critical element for Yemen's socio-economic recovery. Analytic work to highlight the importance of trade and labor mobility to the Yemeni economy as well as generating some scenarios for recovery of trade, labor mobility, and remittances in in peace time could be an important contribution to peace talks. High quality analysis could help all parties to come to a mutually beneficial agreement on such questions.

Short - Medium Term (6- 24 months)

7. Provide investment guarantees to help to mobilize private sector capital for infrastructure, service delivery projects, and other transactions that would not proceed unless investors and lenders are protected against specific risks. The post conflict government will not have the resources needed to finance the infrastructure needs of the country after the conflict ends. At the same time, attracting private investment into conflict affected countries, or even recently post-conflict countries, is both challenging and critical to financing recovery and reconstruction. The political uncertainty inherent in post-conflict contexts and the risk of further instability dampens both foreign, local, and diaspora investor interest. MIGA operates a Conflict-Affected and Fragile Economies Facility (CAFEF) that provides an initial loss layer to insure investments in conflict affected countries such as Yemen. It is recommended to make CAFEF or a similar Yemen-specific guarantee fund available in Yemen for both larger scale infrastructure projects, in particular in the energy sector, and smaller private investments or other transactions (such as service delivery contracts which involve use of assets in-country or other risk exposures). Ideally, it would ideally support investors of all kinds – foreign, diaspora, and local. The Gulf Cooperation Council (GCC) countries may be a potential source of finance for such a fund.

8. Finance the reconstruction of trade infrastructure to revive trade activities and address the deteriorating food insecurity. In the short term while conflict is ongoing, rebuilding critical trade infrastructure is important to food security and provision of medicine to the population. In the immediate post-conflict phase, rebuilding a broader set of trade infrastructure should be a central priority for all parties. For the World Bank and other donors, investing in infrastructure projects is an obvious step in both the immediate and longer term.

9. Create a public-private Financial Sector Restructuring Agency (FSRA) to support the authorities in their effort to restructure the banking sector. The mandate of this institution would include the following:

- Inject capital in financial institutions (banks and microfinance institutions) that are deemed viable with a view of restoring their solvency and accelerating their recovery process;
- Create a Deposit Insurance Scheme to help the CBY to restore public trust in financial institutions;
- Provide technical support to fragile financial institutions to facilitate their restructuring. This could also involve technical assistance to the CBY to facilitate complex operations such as mergers, liquidations, or creation of bad banks;
- Provide wholesale facilities (including guarantees) to eligible financial intermediaries (banks, microfinance institutions, venture capital) in order to inject liquidity and facilitate the resumption of credit and equity finance toward the private sector. Current SFD financial intermediation activities should be then transferred from the FSRA (which would at the same time clarify the role of SFD, which currently cumulates many potentially conflicting development roles); and
- Provide technical assistance to financial institutions to perform sound NPLs restructuring.

ANNEX 1

Overview on Damages to Commercial Road Network and Wartime Alternatives

Route	Status	Alternative Routes
Sana'a – Mareb	Mines road and is completely out of service	Sana'a – Al-Jawf – Mareb (via Arhab or Harf Sufian), which is also used as the road to Al-Wadia'ah, and then returning viaMareb – Al-Baydha – Sana'a (via Hareeb, Shabwa, Al-Baydha, Rada'a, Dhamar, and Sana'a), where the overall travel time increased more than four folds
All routes that used to connect Sana'a with eastern governorates via Mareb; namely, Al-Mahrah, Hadhram-(aut, and Shabwa	Closed due to ground battles in Nehm and the closure of the road from Sana'a to Mareb	Mareb – Al-Baydha – Sana'a (via Hareeb, Shabwa, Al-Baydha, Rada'a, Dhamar, and Sana'a), or Aden – Taiz – Sana'a, which is a very long detour
Al-Hodeida – Sana'a	Closed because all bridges and connections on the road were hit by airstrikes; temporary roadbeds are made, but they go away with rainfalls	Al-Hodeida – Anis (Dhamar) – Sana'a, which is used to bypass the regular road from Sana'a to Al-Hodeida via Manakah; however, this alternative route is long and not safe and dangerous bandits are often encountered
Aden – Taiz (via (Karesh, Al-Rahidah	Bridges and connections were hit by airstrikes, including Akan bridge; although temporary roadbeds were made during 2015, large trucks could not pass through and small trucks were used instead to transport goods to the other side of the damaged bridge. Since the beginning of 2016, this road became entirely closed due to continuous battles and mines on the road	Aden – Hayjat Al-Abd – Haifan – Taiz, or continuing to Al-Turbah and then entering Taiz through Al-Hoban, which was used an alternative road connecting Aden with the remaining governorates, but recently it has become a battle ground and it gets closed often
Aden – Taiz – Sana'a	Closed as bridges were hit by airstrikes	(Via Hayjat Al-Abd (Hayfan
Haradh – Al-Hodeida – Sana'a	Closed	Via Hajjah
Sana'a – Sa'adah	The road from Khamer to Sa'adah is closed	The road from Kahmer to Sa'adah was substituted by Al-Mallaheedh, but it has now become impossible to pass through due the ongoing war in that area. Presently, it is possible to reach Sa'adah via Amran, but at the risk of getting hit by airstrikes, especially when transporting .goods
All roads to Taiz, especially Taiz city	Reaching Taiz is very difficult and dangerous, and often impossible especially when transporting goods	

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