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# **Yemen Policy Note 1: A Summary**

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## Table of Contents

Acronyms.....	i
Acknowledgements.....	ii
<b>I. Introduction.....</b>	<b>1</b>
<b>II. Overarching topics for consideration.....</b>	<b>3</b>
<b>III. A summary of considerations and recommendations derived from the Yemen Policy Note series.....</b>	<b>8</b>
<b>IV. Concluding remarks .....</b>	<b>23</b>
 <u>Figure:</u>	
Figure 1: Matrix for Recovery and Change in Yemen .....	7
Figure 2: Reimagining Institutional Relations in Service Delivery.....	19
 <u>Annexes:</u>	
Annex 1: Yemen Recovery Policy Notes - Overview of Policy Actions and Key Short-Term Priorities.....	24
Annex 2: Republic of Yemen: Selected Economic Indicators, 2010–17.....	35
Annex 3: The National Dialogue Conference - ending violence through institutional change and aiming for inclusiveness.....	36
A summary of National Dialogue Conference Outcomes .....	37
Annex 4: Summary of Service Sector Policy Notes (input notes).....	42
<b>References .....</b>	<b>44</b>

## Acronyms

CSO	Civil Society Organization
CBY	Central Bank of Yemen
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
ICT	Information and Communication Technology
IDPs	Internally Displaced Persons
NDC	National Dialogue Conference
MAF	Mutual Accountability Framework
MoTI	Minister of Trade and Industry
MoPIC	Planning and International Cooperation
MoE	Ministry of Education
MSME	Medium and Small Enterprises
MTDF	Multi Donor Trust Fund
NGO	Non-Governmental Organization
OECD	Organization for Economic Coordination and Development
PFM	Public Financial Management
PIU	Project Implementation Unit
PWP	Public Works Program
RPBA	Recovery and Peace Building Assessment
SFD	Social Fund for Development
WG	Working Group

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The World Bank team was led by Wilfried Engelke (Sr. Economist). However, many more helped and contributed to these notes: Abdulhakim Ali Ahmed Al-Aghbari (Sr. Highway Engineer), Afrah Alawi Al-Ahmadi (Sr. Social Protection Specialist), Amal Talbi (Sr. Water & Sanitation Specialist), Amir Mokhtar Althibah (Research Analyst), Amira Kazem (Sr. Operations Officer), Asbjorn Haland Wee (Sr. Operations Officer), Ashish Khanna (Lead Energy Specialist), Balakrishna Menon (Program Leader- Social, Urban Rural and Resilience), Clayton Bryant Kerswell (Sr. Private Sector Specialist), Faiza Hesham Hael Ahmed (Agriculture Specialist), Francesca Recanatini (Sr. Public Sector Specialist), Garry Chailer (Sr. Agriculture Specialist), Ghada Ahmed Waheed Ismail (Financial Sector Specialist), Jamal Abdulla Abdulaziz (Sr. Procurement Specialist), Jan-Peter Olters (Lead Economist, Governance), Joern Huenteler (Young Professional), Kanishka Senath Balasuriya (Consultant), Karim Badr El-Din Mohamed (Financial Sector Economist), Khalid Ahmed Ali Moheydeen (Social Protection Specialist), Kinley Clemens Salmon (Consultant), Laurent Gonnet (Lead Financial Sector Specialist), Lire Ersado (Sr. Economist, Social Protection & Labor), Luigi Giovine (Lead Operations Officer), Luis Prada (Sr. Procurement Specialist), Manuel Vargas (Lead Financial Management Specialist), Marijn Verhoeven (Lead Economist, Public Sector Governance), Michael G. Schaeffer (Sr. Public Sector Specialist), Moad M. Alrubaidi (Sr. Financial Management Specialist), Mohamed Hamoud Baider (Private Sector Specialist, IFC), Moustafa Abdalla (Health Specialist), Nabil Shaiban (Sr. Operations Officer), Nabila Assaf (Sr. Private Sector Specialist), Nadia Fernanda Piffaretti (Sr. Economist, Macro Economics & Fiscal Mgmt.), Naif Mohammed Abu-Lohom (Sr. Water Resources Specialist), Naomi Halewood (Sr. ICT Policy Specialist), Olivier Le Ber (Lead Transport Specialist), Peter McConaghy (Financial Sector Specialist), Philip Winchell Bottern (Senior Social Development Specialist), Rufiz Vakhid Chirag-Zade (Sr. Agribusiness Specialist), Saad Sabrah (Country Officer, IFC), Sabine Beddies (Sr. Urban Specialist), Sailesh Tiwari (Sr. Economist, Poverty & Equity), Sami A Sofan (Analyst, Trade & Competitiveness), Thomas Blatt Laursen (Lead Economist), Tomomi Miyajima (Education Specialist), Walid H. Al-Najar (Financial Management Specialist), Xavier Stephane Decoster (Consultant), Yogita Mumssen (Sr. Infrastructure Economist), Yolanda Tayler (Practice Manager, Energy & Extractives, Governance - Procurement), Muna Abeid Salim (Sr. Program Assistant), Suhair Al-Zubairi (Program Assistant), and Fowzia Yahya Musleh Al-Qobi (Program Assistant).

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## **I. Introduction**

**1. *Yemen is subjected to a deepening conflict with an uncertain outlook for peace.*** The conflict in Yemen began in 2014 and escalated in early 2015 when the Houthi militias and their allied forces occupied large parts of the country and putting in jeopardy the then existing transition process that had been established in late 2011. A coalition of Saudi-led Arab forces (Bahrain, Egypt, Jordan, Kuwait, Morocco, Qatar, Saudi Arabia, Sudan, and the United Arab Emirates) decided to intervene in March 2015 with the objective to return the country to the guiding parameters of the transition process as defined by the Gulf Cooperation Council (GCC) Agreement of late November 2011 and the outcomes of the National Dialogue Conference (NDC) of early 2014 (see also annex 3, page 29). The GCC agreement and its implementation mechanism ended the popular upheaval of 2011 in the wake of the Arabic Spring movement and provided for recommendations on a political transition in Yemen. The NDC outcomes of early 2014 offered a broadly shared consensus view on (1) what caused fragility in Yemen, (2) hindered development in Yemen in the past, and (3) recommendations and suggestions to address the identified weakness to build peace in Yemen and improve livelihood conditions in the country. The NDC underpinned architecture for peace building in Yemen and implementation of the NDC outcomes has therefore also been a key demand of the United National Security Council Resolution no. 2216 of April 14<sup>th</sup>, 2015, calling on the parties to return to a peace process based on the principles enshrined in the GCC agreement and the NDC outcomes.

**2. *Yemen has witnessed cycles of violence and civil war since becoming a Republic in 1962.*** Over the last 50 years, and prior to 1990 also in form of North and South Yemen, Yemen has seen open societal violence, upheaval, and civil wars. Despite periods of relative and partial (regional) stability, the country rarely experienced a complete absence of violence. The current conflict continues this path and given its dimension, it is deepening societal fragility and fault lines in Yemen. Yemen's cycles of violence originate from a mix of factors like long-standing grievances, corruption and elite capture of resources, exclusion, as well as tribal, regional, and more recently sectarian divisions. A cascading and pervasive patronage system, abused tribal norms and conventions, helped to facilitate periods of stability as much as they were abused to divide the country. The Yemeni state has therefore been grappling with establishing a viable central authority that enjoyed undivided legitimacy. As a result, creating a pluralistic political system within the framework of a unified nation-state that could mediate tension, grievances, conflicting objectives in a peaceful, structured and institutionalized way did emerge only in fragments and pockets of society. Modern institutions established since 1962, when Yemen abolished the Imanate and became a Republic, were not able to ensure equal opportunity, justice, and the rule of law.

**3. *The oil economy and its rents financed an unsustainable use of resources, provided a diverse set of incentives for conflict, and laid the ground for the motives driving the events in 2011, the prelude to the current conflict.*** The emerging oil economy since the early 1990s offered

rents and a broader range of options for the existing patronage system, deepening numerous previously existing distortions in the economy, and adding new ones, may it have been the vast state owned sector or the energy subsidy, or the non-sustainable use of water, e.g. for the vast expansion of qat cultivation since the 1980s.<sup>1</sup> The resulting overall direction led to disappointing development outcomes.<sup>2</sup> By the same token, long-standing vested interests, combined with a continuous control of economic rents by traditional and political forces and networks, have hindered and complicated a transition toward a more market driven economy and a more inclusive system of governance, respectively deepened existing fault lines and grievances in society. This has further eroded the trust in the state and its central institutions to deliver economic opportunity and growth, equal access, justice, and the rule of law.

**4. *The current conflict has a devastating impact on Yemenis and Yemen.*** An estimated 10,000 Yemenis lost their life, a multiple of those are wounded, children suffer increasingly from malnutrition, estimated to be 2.1 million. Over 2 million Yemenis are internally displaced, and a range of social (e.g., health, education) and basic services (energy) is not anymore available, or at best partially. A portfolio of diverse infrastructure assets has been destroyed (e.g., Taiz, Sa'ada, Aden, Hodeidah, Sana'a), in some areas more than in others, affecting adversely livelihood conditions, supplies, and operation in the whole country, and leading more recently to a famine in the country. The financial sector is unable to perform its supporting economic function. The loss of economic wealth, welfare, and opportunities for Yemenis and for Yemen is far larger than the physical destruction of infrastructure indicates. Balance sheets of many private sector operators have been destroyed, entrepreneurial creativity has been diverted to the war economy and its short term profit seeking motives. All this is only partially reflected in a dramatic decline of Yemen's Gross Domestic Product (GDP), which shrunk by an estimated 40 percent since 2014. On top of this, the institutional capacity, which was already weak and fragmented prior to the conflict, has weakened further, may it be that salaries were not paid and employees looked for other income opportunities, may it be that institutions were subjected to the conflict and are not allowed to operate, or allowed only to operate under restrictions. As a result, the institutional capacity in Yemen has suffered in ways, which are difficult to measure or capture. By the same token, going forward, policy measures, however well-conceived and intended, cannot easily be leveraged on the social, economic, or other realms in the country to deliver on social and economic recovery.

**5. *Addressing these weaknesses, fragilities, frustrated hopes and rights, recovery of livelihoods, and rebuilding the country physical infrastructure and especially its institutions to end Yemen's cycles of violence will dominate the political agenda of the country for years to come.*** These series of policy notes will contribute to this agenda with a focus on the short term, the first 2 years of recovery in an assumed post conflict situation. There are many conceivable needs and possible entry points for this note series. In interaction with representatives of the

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<sup>1</sup> A direct result of rising incomes.

<sup>2</sup> See the World Bank's 2015 Country Economic Memorandum for the Republic of Yemen: Unlocking the Potential for Growth.

recognized Government, other Yemeni actors, and expertise available within the Bank, drawing also on experience in other countries, these notes cover (1) key elements for economic stabilization and public trust building, (2) proposals to bring in private sector capacity for recovery and generation of employment, (3) recommendation for how best to restore services to citizens while focusing also on institutional set-ups that forge inclusiveness, participation, and transparency, taking account for a fragmented central state level, and (4) a critical review and analysis on how the Yemen authorities and Yemen's foreign partners can best use external support for recovery, reconstruction, and ultimately for development.

**6. *These notes are not conclusive answers to the challenges Yemen is facing post conflict.***

They are on offer to the authorities in Yemen and other stakeholders to inform the discussion on recovery, reconstruction and potentially development in Yemen. As they focus on the shorter term, the first 2 years of a post conflict situation, the considerations applied in the note anticipate also challenges and possible choices for the longer term. Such a linkage, while not always evident or explicit, originates from the experience that solutions applied for the shorter term, open or close choices for the longer term. As Yemen will have to develop a new approach towards its social contract to exit its conflict ridden recent history, a process which is likely to take time, trials, and errors, the way the recovery and reconstruction is being conducted and tackled over time, will positively or negatively influence the discussion on a revised social contract. This new contract is likely to evolve as a result of this longer term process. In short, the decisions made in the short term, during the first two years, have a policy implication which might go well beyond the first two years.

## **II. Overarching topics for consideration**

**7. *Restoring quickly the fiscal capacity and the economic stocks will be key to stabilize the economy and provide for peace incentives.*** Peace cannot win, if the economy continues to struggle, respectively if the war economy prevails. Anchoring the economy and providing a credible perspective for recovery and reconstruction will be extremely important. Balancing the macro economy, essentially the external and the domestic economic aggregates, would be a first step. Stabilizing the macro economy would initially – beyond policies – require restoring the essential stocks of the macro economy, with (1) a minimum stock of foreign reserves to allow for imports and recovery, including recovery of the private sector, and (2) a minimum of fiscal resources to begin rebuild public services and respective institutions, ultimately the central state. Endowing the future new Yemeni Government with initial fiscal resources would allow for salary payments, servicing some critical arrears, and for restarting service delivery.<sup>3</sup> Particularly, the latter, restarting service delivery, will be important in order to restore credibility among the Yemeni population.

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<sup>3</sup> The modality for support could have many forms but the external and initial support should focus on supporting and restoring the functioning of the national budget system.

**8. *Unleashing private sector capacity should be the overall objective for public policies of a post- conflict government in Yemen.*** Restoring state functions, institutions, and service delivery capacity will be the principal cross-cutting objectives for the first 2 years. A weakened state and public sector will, however, have to seek maximum use of private sector capacity, energy, efficiency, and functionality. This suggests a focus on facilitating activity of private sector operators whenever possible. The state's restorations and early stabilization efforts should be geared to enable and catalyze private sector operators, may it be through restoration of the Central Bank, balance of payments support to help bring back imports as a backbone to recovery and reconstruction, or helped by an orderly work-out of domestic arrears, including those to the financial sector. This *facilitator approach* for the state, instead of being the *agent for solving* all economic and social problems directly, would help to refocus the state's purpose in Yemen's evolving socio-economic and political realm. As a *facilitator*, the state would evolve as a central mediator of a diversity of actors, interests, and competitive approaches promising social and economic solutions rather than the current status, which mixes regulatory powers and direct ownership and loses out on efficiency and competitiveness, and therefore ultimately could not meet social and development aspirations in Yemen. Over the medium to long term, this approach would also allow for space to shed state owned economic assets, or changing the state's anchor role in the hydrocarbon sector.

**9. *Using the private sector as an instrument for change, betterment, and economic advance has no alternative.*** A *private sector first approach* should not be mistaken as an ideologically minded recommendation. It is born out of the past experience in Yemen where the state's economic functions and overriding role was subjected to continuous domestic political negotiations, backed by political fragmentation (see the preceding context). Economic assets, economic privileges, and economic management were considered mainly as an instrument to balance short term political objectives. The future focus on the *facilitation role* for the state would therefore help the political elite in Yemen as well as Yemenis overcoming the constraint of maximizing only the very short term economic advantage (rent seeking) at the expense of the longer term benefit (creating wealth). Creating opportunity, employment, capital, and ultimately shared wealth is the purpose, which the state needs to support aside of security and justice. The instrument for delivery is the private sector. The opportunity to restart with a revised focus is the recovery and reconstruction of Yemen.

**10. *The Yemen authorities need to guide and direct markets and the private sector.*** In enabling the private sector and use markets, the state needs to assume important regulatory functions, which he is unlikely to be able to assume as required because of lack of capacity, time, and resources, during the first two years. Collaboration with Yemen's partners would be a way forward. Financial support would only be one part of the support package its partners could deliver. *Importing* regulatory experience, capacity, and blueprints would be another part. For a transitory period, drawing on strong institutions (audit, procurement, competition, regulatory frameworks, financial markets, etc.), which are available in the region, would be recommendable.

**11. *Critical for the state in Yemen to emerge from its crisis is to gain trust and credibility among Yemenis.*** In line with a reduced direct economic role for the state, trust and credibility is recommended to emerge through paying due respect to the diversity in Yemen, including its diverse interests and differing cultures. Certainly for the early recovery period, space and voice is needed for communities and regions to recover. Again, the central state would be well advised to support and enable such communities or regions with their initiatives. While local or regional solutions might not suffice as an answer to all (public policy) problems, the early recovery phase should make maximal use of capacity and initiatives that have developed on the local or regional level (*local first* – see also Policy Note no. 4 on Inclusive Service Delivery). Again the central authorities would be rather the *enabling* than the *directing* one. Reestablishing services has priority.

**12. *Rebuilding the Public Financial Management System is not only important for delivery of public services but also for gaining trust.*** The management of the public finances is critical for gaining trust. In a first phase, restoring the integrity of the budget execution process is priority (payroll data, arrears, execution controls, reporting). Second, preparing and launching of a new budget will signal the commitment to the peace process. Third, restoring and reviving key budget control mechanism is central for sustaining building trust between the central state and Yemenis. It is also central for ensuring that the public efforts and policies deliver.

**13. *There is no blueprint for revamping the Social Contract in Yemen but providing Yemenis with voice and accountability would be a start.*** It is obvious that Yemen's old social contract failed given the current state of conflict. Yemenis asked in 2011 for more voice and more accountability. The NDC outcome offers a vast array of entry points as well as an architecture for rebalancing the social contract over time. In the meantime, the current conflict created a very different dynamic to drive the social contract agenda in Yemen. However, acknowledging the diverse nature of the Yemeni state along its regions, adding voice to such regions or key localities (cities) would be a first step to create a more formalized and institutionalized platform to renegotiate or trade off preferences, resources, and development priorities across an array of interests. The demand for more accountability would come from these empowered platforms or institutions channeling regional and/or local interests. A revised social contract in Yemen would result after a longer period. The importance is that voice and accountability is given priority from the beginnings of the recovery. Increasingly delinking the state from direct economic interests, as suggested above, would be very supportive to such an approach.

**14. *Reviving the hydrocarbon economy is critical for restoring the economy as a whole.*** Although the hydrocarbon economy is not important as an employer, it is the financial backbone of the Yemeni economy as 60 percent of the fiscal resources and 85 percent of the export receipts were generated through the hydrocarbon economy prior to 2015. Reviving oil and gas production as soon as possible is therefore pivotal for economic, political, and ultimately for social reasons. Although the hydrocarbon sector is the most valuable economic sector for Yemen, its overall value

is seriously affected by the secular decline of international oil prices since 2014 (halved). It cannot suffice to just restore the status quo antes. The sector's investment conditions would need to be improved to revive fully its economic role. Its reduced value, going forward, should also be a motivation to thrive for more economic diversification. The above argued case for the *private sector first* could provide for a helpful first path.

**15. *Reforming over time the governance of the hydrocarbon sector would be an element of peace building, add to the social contract discussion, but also help to expand the sector.*** A more inclusive sharing and usage of the natural resources in Yemen would support peace building. Untargeted sharing of some hydrocarbon profits (subsidies) is not satisfactory. Sharing would need to be accompanied with a broadly improved accountability in the sector to generate transparency and trust. Accountability is best generated in the Yemen case by creating more demand for it. Overcoming the current governance structure of the sector would be important to allow for a larger private sector and investor role, which would per se also be a source for more demand of accountability. Re-defining the delineation of the sector's political and economic oversight and operations across an array of existing institutions, entities, and state owned companies would be required.

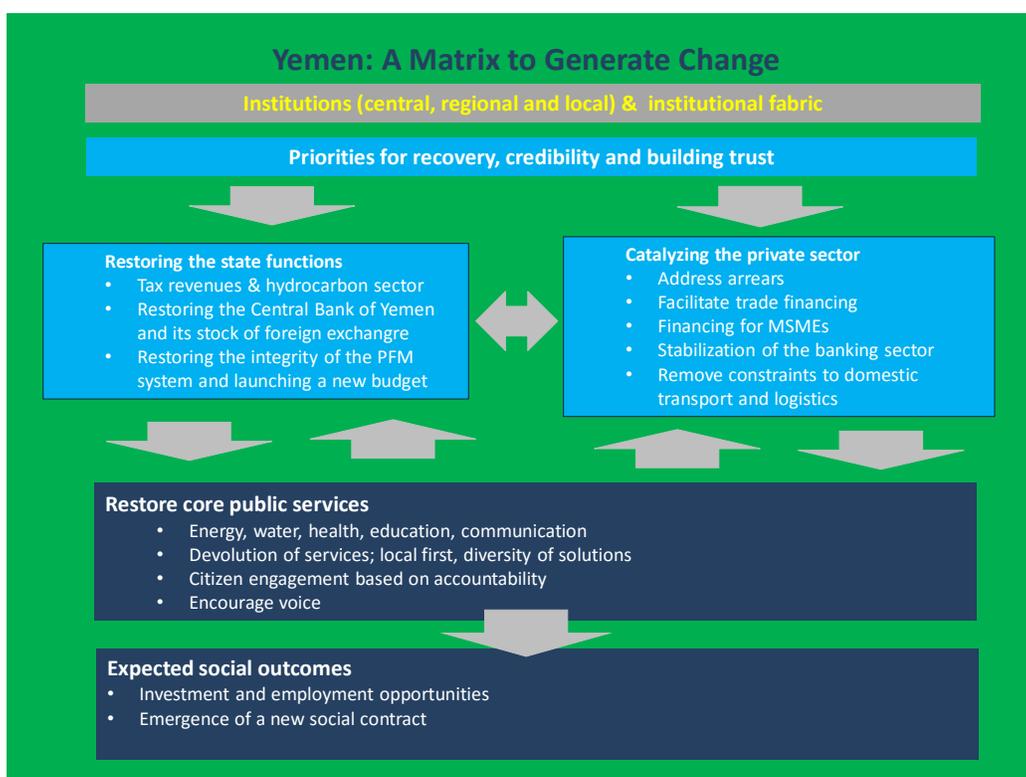
**16. *Restoring services and rebuilding infrastructure quickly is best achieved by building on local solutions and giving the community level preference.*** While the central state level will be the key driver for service delivery in terms of national regulations, standards, financing, and facilitating (public) infrastructure, the 'local' level has been driving coping and recovery mechanism. The *local* level is defined rather broadly, depending on the scale and scope of the service or infrastructure, and could vary in terms of degree of citizen engagement, institutional coordination, and resource requirements needed for effective service delivery.<sup>4</sup> Unlike a hierarchical model of state structure, in this case, the powers and functions of center, intermediate and local tiers and their associated institutions of service delivery, are based on mutual dependence and incrementally evolving. The new approach acknowledges the vital role that alternative mechanisms—such as community based organization (CSOs) and the private sector—can play in delivering services. Today, in water, power, health and local security service deliveries formal and informal appointed private providers are already stepping into the vacuum left by the public sector. The new approach entails supporting such efforts, recalibrating the service quality and breadth through the public sector, addressing supply chain weakness, strengthening the private providers and enhancing accountability and inclusivity in delivery. This new approach acknowledges the high level of variance among regions and communities with regard to the degree of state authority, capacity, resources, natural endowments etc. and the need to adopt solutions fitting the unique situation in each region, local jurisdiction and/or community within an overall framework of enhancing state capacity and effectiveness.

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<sup>4</sup> For example, it could be community associations or user groups in rural areas, utility agencies in urban areas, district and governorate local authorities, or the deconcentrated office of a central agency but strengthened to operate more autonomously at the local level.

17. *External assistance need to be effective immediately to build peace and overcome the causes of conflict, using national systems.* In particular, planning, coordination and implementation arrangements need to reflect the dual challenge of providing immediate peace dividends and humanitarian response to Yemenis in need, while strengthening national systems (e.g. the PFM system) and capacities that are needed to eliminate poverty, promote development objectives, and help to build peace. These challenges are compounded by the fact that expectations will be extremely high in the immediate aftermath of a post-conflict, absorptive capacity will remain limited for years to come, and that government capacity to deliver will be tempered by its presumed lack of access and legitimacy in certain parts of the country even following a possible peace agreement. Nonetheless, restoring and improving national systems, including for the delivery and absorption of external assistance, is the preferred, quickest and most effective way to overcome these challenges.

Figure 1: Matrix for Recovery and Change in Yemen



Source: World Bank.

### III. A summary of considerations and recommendations derived from the Yemen Policy Note series

The following considerations and recommendation reflect the thrust derived from the four policy notes (see also annex 1). These recommendations try to establish priorities for the immediate post-conflict, the very short term (3 to 6 months), and the continuum from the short to the medium term (up 24 months).

#### III.1. *A summary of considerations and recommendations derived from Policy Note no. 2: Economic, Fiscal and Social Challenges in the early phase of a Post Conflict Yemen*

**18. *Stabilizing the macro economy is key for gaining the peace and realizing the peace dividend.*** For the short term, though, the prime challenges are: (1) rebuilding key economic stocks and central national economic institutions, foremost the foreign reserves and the Central Bank, the anchor for Yemen's financial system, (2) restoring the fiscal revenues, (3) restoring the hydrocarbon sector as the financial backbone of the economy without which economic stability will be difficult to conceive over the medium terms, and (4) establishing the legitimacy of the central institutions, especially through restoring the fiscal management system and its accountability mechanism while delivering on reconstruction and restoring public services.

**19. *Restoring a minimum stock of foreign reserves is a priority for allowing the private sector to recover and initiate economic recovery.*** The minimal stock of initially available foreign reserves commensurate with restoring macro stability should amount to roughly 3 months of imports<sup>5</sup>, estimated at \$4.5 billion under pre-conflict conditions.<sup>6</sup> The availability of foreign reserves will allow to fund recovery imports and are indispensable to engage the private sector for recovery.

**20. *Restoring the operations of the Central Bank immediately is a sine qua non conditions for economic recovery and regaining macro stability.*** The Central Bank of Yemen would need to be able assume again its normal financial anchor functions which are (1) servicing as a lender of last resort to the Yemeni financial system, (2) to balancing the national private and public debt market, (3) facilitating international trade, and (4) ensuring the viability and credibility of the Yemeni financial system.

**21. *Resuming trade to its full potential and reviving the hydrocarbon sector requires a regularization of the external debt situation to allow investors to have access to currency flows.*** Accumulated arrears on external debt obligation will be an obstacle to resuming normal trade activities, reviving the private sector in general, and for entering in complex financial transaction for restoring the hydrocarbon sector, as creditors would insist on meeting their claims before new

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<sup>5</sup> Three months of import coverage is considered a minimum level for countries to meet macroeconomic stability criteria.

<sup>6</sup> Which would be equivalent to about 10 percent of the conflict depressed GDP total per end 2016.

investors could make a claim on external currency flows. External debt obligations would need to be restructured, respectively external debt arrears would need to be rescheduled.

**22. *Yemen needs to restore its fiscal revenue base from day one.*** Yemen's reconstruction, stabilization, and development path from the immediate over the medium to the longer term hinges critically on the ability of its future government to raise domestic revenues to fund its public expenditure program. External resource availability has an important role to play for early stabilization, restoring of livelihood as well as the social and institutional fabric. However, sustainable recovery, restoring its own systems and its institutional fabric, requires generating own resources.

**23. *Trade and consumption taxes have an important role to play in the short term to restore fiscal revenues.*** Yemen's given tax regime is does not *a priori* represent an obstacle to efforts aimed at strengthening revenue collection. However, a post-conflict situation requires some initial short term "*emergency responses*" to finance and support reconstruction efforts. In this context, it is critically important to (1) sequence the (re-) establishment of the tax and customs administration appropriately; and (2) minimize administrative complexities so as to permit the government to assume its core functions without asphyxiating first signs of private-sector recovery. *Trade taxes* and *consumption taxes* should receive attention on a priority bases.

**24. *The pace of the recovery of fiscal receipts and export earnings over the medium term (after 6-12) depends on the speed and depth the oil and gas sector can be restored.*** Pre-conflict, the hydrocarbon industry in Yemen generated 50-60 percent of the fiscal revenues and up to 85 percent of export revenues, and nearly 50% of foreign reserves. The sector's share of GDP amounted to 8-9%, and its importance for direct employment is negligible. Yet, despite of the massive decline of international hydrocarbon prices since 2014, the recovery of the hydrocarbon sector continues to constitute a central imperative for economic recovery and sustainable economic stabilization in Yemen.

**25. *How quickly the past production revenue capacity can be restored depends on (1) the speed of investor re-engagement (2) better utilization of given investments, and (3) the future investment conditions available to the sector, ultimately aided by a conflict resolution agreement.*** The future international oil price is assumed to rally around \$50 a barrel, about half of past prices. Achieving the pre-2014 hydrocarbon rent level for Yemen's fiscal and external balance going forward, would require a substantial increase in the annual production. The decline in production - as observed since 2002 - could be reversed, if the investment climate in the sector would allow for a more sustainable prospection, exploration, and production path.

**26. *Legitimacy, trust building, and effectiveness of any expenditure program requires the restoration of normal budget operations.*** Normal budget operations will have to be restored in order to support the state administrative structure and to provide some degree of service delivery. This will include establishing the authorizing arrangements, as well as restarting treasury

operations. As a starting point, an “emergency budget” for the post-conflict fiscal year would need to be prepared.<sup>7</sup>

**27. *There is no legitimacy without restoring budget integrity.*** In order to build confidence among the relevant stakeholders and to make efficient use of limited resources, it will be important to ensure that fundamental controls are in place to prevent fiscal leakages. Under the presumption that expenditure priority will initially be placed on payments of civil servant salaries, securing the integrity of payroll data and controls will be imperative.

**28. *Commitment to and delivery on fiscal transparency will be an important trust and confidence-building measure.*** Producing timely and reliable information about the budget and its execution (to start with) will help open doors for public debate. It will also facilitate accountability over the use of public resources to citizens and development partners alike. It will be particularly important for the government to quickly show that spending is going to support reconstruction and service restoration in the various areas of the country.

**29. *The first post-emergency budget formulation exercise will be constraint by the presumed limited available capacity.*** A simple mechanism for selection and allocation of funds to reconstruction capital investment projects would need to be established and further developed over time. While these investments would initially be supported largely by development partners on the basis of a Recovery and Peacebuilding Needs Assessment (RPBA), the foundations for an institutional project “gatekeeping” process could be set early on.

### III.2. *A summary of considerations and recommendations derived from the Yemen Policy Note no. 3: Private Sector Readiness to Contribute to Reconstruction & Recovery in Yemen*

**30. *The private sector has been badly affected by the conflict but will be crucial to recovery.*** A SMEPS survey 2015 survey found that after six months of war 74 percent of the firms surveyed reported physical damage. Labor markets have been significantly affected with employment declining by 13 percent 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.

**31. *Trade regime and logistics in Yemen need to be restored to enable the private sector.*** Total imports are estimated to have dropped 54 percent between 2014 and 2015 with total exports dropping 51 percent 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

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<sup>7</sup> Emergency budgets may be required even beyond the first post-conflict fiscal year.

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 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.

**32. *The Yemeni financial sector faces problem 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.

**33. *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.

**34. *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. 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.

**35. *Key recommendation for accelerating reconstruction and private sector recovery:***

**Short term (3 -6 months)**

- ***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.

- ***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.
- ***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.
- ***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:***

  - 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.
- ***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.

- ***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)**

- ***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.
- ***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.
- ***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.

### *III.3. A summary of considerations and recommendations derived from the Yemen Policy Note no. 4: Inclusive Service Delivery*

**36. *To learn from past experience in Yemen and in comparable countries with regard to service delivery, is to look beyond the national and central delivery paradigm.*** Past service delivery approaches during both, times of peace and in post conflict reconstruction, primarily relied on working through national agencies — ministries, utilities, quasi-public agencies — even when the objective was meeting local service delivery needs. At least a few of the national agencies also has strong local foundations — for example, the SFD the PWP and the Road Maintenance PIU. The main features of such an approach were:

- Planning, resource allocation and decision-making processes are top down, even when the agencies are consultative and responsive at the local level.
- Capacity is a top down function and the ability to resume service delivery after conflict is largely dependent on the readiness and ability of national agencies to deploy such capacity at the local level. A number of exogenous and endogenous factors at higher levels, including elite compacts, availability of resources, capacity constraints, etc, in turn, influences this.

**37. *The national or central level needs to learn from the local or regional level for improving service delivery.*** The new model for basic service delivery would require us focus on a long term, incremental and organic pathway of bottom up state building. This approach will enhance the resilience of the populations to recurring cycles of fragility and conflict as well as serve as an indirect route to state legitimacy, over time. The proposed approach departs from the past in two significant ways:

- It adopts a local-first approach. The ‘local’ is defined rather broadly in this context. It depends on the scale and scope of service, and the degree of direct citizen engagement, institutional coordination and resource requirements needed for effective service delivery.

For example, it could be community associations or user groups in rural areas, utility agencies in urban areas, district and governorate local authorities, or the deconcentrated office of a central agency but strengthened to operate more autonomously at the local level.

- Unlike a hierarchical model of state structure, in this case, the powers and functions of center, intermediate and local tiers and their associated institutions of service delivery are based on mutual dependence and incrementally evolving.

**38. *The new approach implies the following areas of greater emphasis with regard to inclusive service delivery in Yemen:***

- Sequencing priority sectors: Jumpstarting services to address the most urgent needs in the most critical service sectors (for e.g., health, water, energy, ICT etc.);
- Local-first approach: Capacitating local institutions including civil society institutions and the private sector, and enabling them to become more participatory, inclusive and resilient;
- Connecting different levels of state: The local-first approach does not mean a neglect of the other levels of government. Instead, the sustainability of the local-first approach is tied to the interdependencies that could be successfully created across territories and across local, regional and higher institutions in managing natural resources, development of infrastructure, delivering services, etc.
- Innovative resourcing and service provision: Ensuring sustainability of service delivery through mobilizing and deploying conflict-resilient resources, especially since the central government may not be in a position to provide resources for service delivery. In this context, the role of the private sector (both formal and informal) as well as non-traditional service providers assume greater significance;
- Inclusive-enough coalitions: Enhance social cohesion through coalitions built around service delivery, livelihoods and management of local resources; and
- Reimagining community: Focus on local and regional level institutions for an effective bottom-up state building approach rather than depending on either, a top down, or a decentralized approach.

**39. *Operationalizing the New Service Delivery Model.*** In the following operational implications are explored for the new approach in relation to each of the service sector analyzed (energy, water, information and communication technology (ICT), education, and health). The respective input papers underpinning these considerations discuss how to operationalize *local first* at greater length:

1. Sequencing priority sectors:

- In this regard, the Energy paper highlights how support for the sector could focus on adopting simple, flexible and innovative solutions aimed at supporting other public services and pro-poor outcomes. In this regard, the paper emphasizes the importance of keeping in mind the vital role that electricity plays in supporting other public services, improving livelihoods, and strengthening the overall economy.
- Similarly, the ICT paper recommends ways to leverage the existing mobile network in Yemen—which has thus far proven resilient in conflict—to facilitate/enable the delivery of services. For instance, the paper points out how the existing technology can be used

towards higher-level (conflict mitigating/state building type) objectives including, using mobile money for cash transfers to address social inequalities, exploring ways to adopt telemedicine and crowdsourcing data-collection to improve health sector outcomes, facilitating citizen engagement and community participation via ICT platforms, and using a mobile platform for real-time donor coordination etc.

- The Transport paper also calls for a greater focus on roads that are vital for service delivery in prioritizing rehabilitation/maintenance.

## 2. Local-first approach:

- The Energy paper calls for moving away from the Bank's previous practice of financing large scale public-sector infrastructure aimed at increasing the provision of electricity, to explore alternative models of energy investments. The paper points out how Yemenis were unable to fully leverage support to large scale infrastructure due to severely weak institutional capacities of the Public Electricity Cooperation (PEC) and Ministry of Electricity and Energy (MEE). Therefore, the new approach calls for supporting simple, flexible and innovative solutions—including solar power—based on a decentralized or municipal-level focus with innovative procurement and financing arrangements.
- The Education paper also highlights how the highly centralized education services had made the sector vulnerable to political capture in light of the weak institutional capacities of Ministry of Education (MoE). For instance, in the current conflict, schools in Sana'a had been ordered to abandon newly revised first-grade Arabic textbooks despite their usage in Aden. Therefore, the new approach calls for moving out of the centrally-controlled top-down method to a more school-based-management (SBM) approach in close collaboration with communities and Mother and Father Councils (MFCs).
- Similarly, the Transportation paper calls for the empowerment and strengthening of local authorities—both at the governorate and district level—and for the adoption of participatory approaches and closer community engagement to implement and maintain rural roads. The paper argues that local-level institutions should be strengthened with adequate training, knowledge transfer, and technical capacity-building.
- The Water sector makes a distinction between urban and rural WASH services and calls for a localized (deconcentrated and/or decentralized) approach in rural areas.

## 3. Connecting different levels of state:

- The Education sector paper calls for the local-first approach to be reinforced by parallel capacity-building and awareness-raising support to MOE, schools, and communities to strengthen accountability and governance of the sector.
- Similarly, the Health sector paper calls for a mixed approach adopting a whole gamut of methods including support for fixed-facilities (under the Ministry of Health) as well as support for mobile teams and community-based methods to expand the coverage of the services to a maximum extent. The approach also calls for building capacities of local-level institutions and staff and building closer partnership between central institutions and local CSOs and private sector partners for last-mile service delivery support, development of infrastructure, etc.
- While the Transportation paper calls for a more decentralized approach for the rehabilitation/maintenance of roads, it acknowledges the equal importance of supporting central transport installations such as airports and seaports. As such, the ultimate success

of the approach will depend on the extent to which the support to the local level and the central level could complement each other.

- The Water sector paper too argues how lot of the conventional support of providing immediate cash infusion for salaries and procurements, repairing of major damages, rehabilitation of wells and pumps, re-equipment of operation and maintenance capability, and emergency sanitation and health education provision etc. may still apply with regard to urban services.

4. Innovative financing:

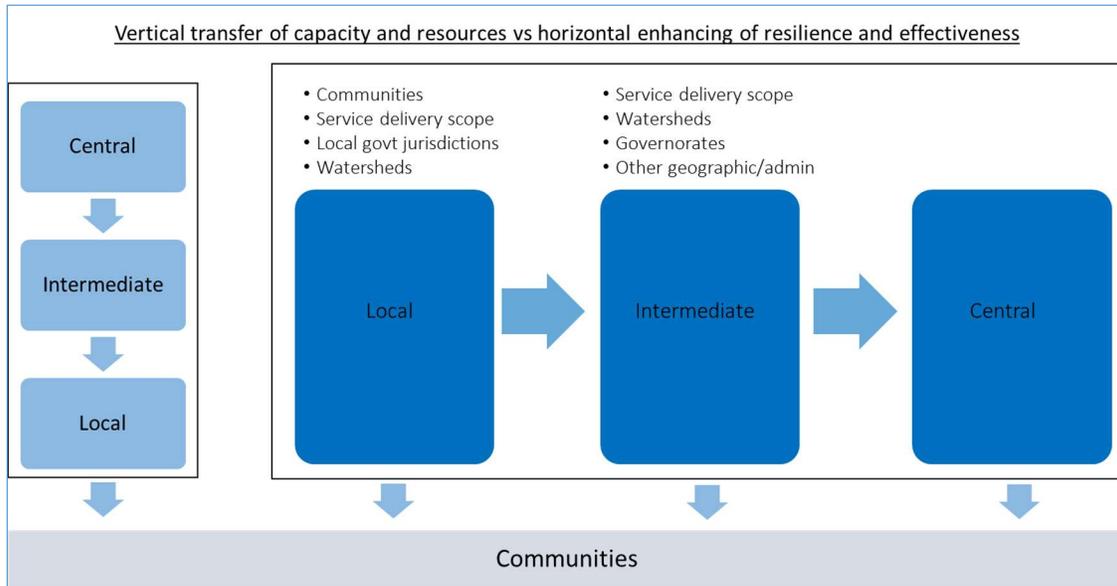
- The Energy sector paper calls for innovative financing sources making realistic and practical use of the Bank's new procurement framework, specifically donor-led procurement and hands-on extended implementation support (HEIS).
- Meanwhile, the ICT paper highlights how mobile communication has opened the door to Mobile Money, expanding the payment system linking people to banking services without having a bank account. Mobile money allows for the direct transfer of credit to an individual's personal mobile phone at very low transaction costs. This increases options available for financing including cash transfers.

5. Inclusive-enough coalitions:

- The Water sector paper highlights the need to promote close coordination between main agencies (GARWSP, SFD, PWP) and international donors (UNICEF, Save the Children, Oxfam, other International NGOs etc.) with a strong community participation component with regard to rural water services in particular.
- The Health sector paper too calls for a mixed approach supporting fixed-facilities, mobile teams and community based outreach efforts to expand the coverage of the services. It also calls for strengthening partnerships between service delivery institutions and local CSOs and private sector for last-mile service delivery support.

6. Reimagine community:

Figure 2: Reimagining Institutional Relations in Service Delivery



- The new approach acknowledges the vital role that alternative mechanisms—such as CSOs and the private sector—can play in delivering services. Today, in many services—for example, water, power, health and local security—formal and informal private providers are already stepping into the vacuum left by the public sector. The new approach entails supporting such efforts with through recalibrating the role of public sector, addressing supply chain weakness, strengthening the private providers and enhancing accountability and inclusivity in delivery.
- The new approach acknowledges the high levels of variance among regions and communities with regard to the degree of state authority, capacity, resources, natural endowments etc. and the need to adopt solutions to fit the unique situation in each region, local jurisdiction and/or community within an overall framework of enhancing state capacity and effectiveness. Additionally, the new approach envisages certain degree of dynamism in the interventions to evolve as the situation changes on the ground overtime.

III.4 *A summary of considerations and recommendations derived from the Yemen Policy Note 5: Aid Coordination and Delivery*

**40. Yemen has experienced repeated cycles of violence and several past attempts to promote peace, recovery, and reconstruction.** The most recent round of conflict has its roots in a post-2011 political transition process that was unable to produce consensus on key power sharing arrangements. It reflects not just a breakdown in the National Dialogue Conference, the centerpiece of the 2011 political transition, but exposed continued contestation around fundamental ideas

regarding the structure of the state, levels of decentralization, and national identity. In parts of the country, the legitimacy and capacity of the central government's authority remains disputed, at times violently.<sup>8</sup>

**41. *Yemen's cycles of conflict reflect a pattern of 21<sup>st</sup> century fragility and conflict: today, many countries face repeated cycles of violence, weak governance, and instability driven by security, justice, and economic stresses that compound weak institutions.***<sup>9</sup> To break out of this cycle, national governments need to build legitimate institutions which can provide security, justice, and jobs. Transforming institutions is a generational project that requires building confidence of national stakeholders through inclusive coalitions and early results that demonstrate ability to deliver immediate peace dividends and meet expectations of the population.

**42. *Peace is not brought by the signature of a peace agreement but by implementing the agreement.*** While prospects of a new peace deal in Yemen are currently uncertain, proactive preparations, planning and coordination of international support in parallel to the active conflict will be critical to both: to facilitate immediate improvements in people's lives and livelihoods, to kick-start the recovery process, and to prepare to address the many underlying challenges and grievances that have fueled conflict and violence in the past. Rebuilding Yemen's economic and social infrastructure and providing services and tangible benefits to the population will become paramount once a political end to the conflict has been secured, on which the viability of the political agreement and Yemen's socio-economic future will depend.

**43. *Moving from a political agreement towards sustainable peace requires addressing the many challenging elements that triggered and fueled conflict in the past.*** This includes restoring public confidence in the ability of the government to provide security to all citizens, re-capacitating government systems to provide key public services throughout the country to facilitate livelihood, reduce poverty, address inequality, tackle the needs of IDPs, to rehabilitate public infrastructure, and encourage private sector activity to create jobs, and, critically, aligning state structures and levels of political, administrative, and fiscal decentralization to create and further a national political consensus on the form and function of government systems.

**44. *Finding ways to address continuous insecurity, weak institutional capacity, lack of cohesion among international partners, and unrealistic expectations will be critical for the success of national and international efforts in a post-agreement Yemen:***

- *First, security will likely remain a challenge post-peace agreement.* The current round of fighting has witnessed a proliferation of armed actors in the country, including fundamentalist groups that will not be part of any new political settlement. The fragmentation of security, particularly outside the capital, will considerably constrain the resumption of normal service delivery and implementation of programming to support

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<sup>8</sup> International Crisis Group, "Yemen: Is Peace Possible?" 9 February 2016

<sup>9</sup> World Bank, *2011 World Development Report: Conflict, Security, and Development*.

improvements. Private sector investment and trade is also likely to be severely affected. Security concerns were largely behind the lack of attention paid to some areas of the country during the 2011-2014 transitional period; these conditions will likely be exacerbated by the intensification of the conflict since 2014.

- *Second, government reach and institutional capacities have been severely damaged by the conflict.* The ability to deliver services—and the legitimacy to do so in some parts of the country—will have to be rebuilt and regained, respectively. Development partners, who for the most part were forced to leave the country due to the conflict, will similarly be constrained by the need to re-establish a presence and re-open their aid programs before delivery can commence. The likely focus on humanitarian aid during the early stages of the re-engagement period will also further constrain government efforts to rebuild critical capacity, given the preference for third party delivery inherent in this instrument.
- *Third, the peace agreement is likely to be followed by a large-scale promise of international support, but Yemen's past experience has shown the difficulties to absorb high levels of aid pledges.* Development aid pledges for Yemen doubled in volume from \$3.7 billion in 1997 and 2006 to an unprecedented \$7.8 billion in 2012. However, only a limited amount of this pledge actually materialized. Over the 3-year period, only 30 percent of the total aid was disbursed including a \$1 billion Saudi deposit in the Yemen Central Bank.<sup>10</sup>
- *Fourth, the lack of coherence among humanitarian, development, and security partners might become problematic given the proliferation of agendas and actors.* To address the human security and development needs, it is important that security, humanitarian, and development agendas mutually understand and reinforce each other during the pre- and post-peace phases; however, coordinating these diverse agendas, their disparate actors and expectations will be a significant challenge. The Ministry of Planning and International Corporation (MOPIC) is in charge of the coordination process between international and governmental partners. However, MOPIC faces its own institutional weaknesses related to public administration, project development and public investment management.
- *Fifth, it is critical that the diverse international donors supporting Yemen, including OECD and GCC donors, dialogue, plan, and act in concert toward mutually agreed-upon outcomes.* This will require enhanced coordination efforts in order to avoid lack of coordination witnessed during the 2011-2014 period. In the past, Western donors concentrated on government economic reform delivery (and counter-terrorism) as a precondition for aid, whereas GCC donors linked aid with the implementation of the GCC Initiative, and focused on capacity challenges in preparing and implementing infrastructure projects

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<sup>10</sup> World Bank briefing note to Yemen Economic Consultation and Coordination Group, 2 June 2016

- *Sixth, the assumed mismatch between expectations that come with peace and the time it takes to deliver real improvements in people’s lives imposes a significant risk. A new peace deal will likely generate expectations of large-scale and immediate improvements, while implementation capacity will be constrained by the security situation and a range of other interlinked challenges impairing the state’s service capability. As the 2011 World Development Report demonstrates, creating legitimate institutions that can prevent falling back into violence requires significant time: even the fastest transforming countries have taken between 15 and 30 years to raise their institutional performance from that of a fragile state—Haiti is an example—to that of a functioning institutionalized state, such as Ghana.<sup>11</sup>*
- *Finally, given Yemen’s own history, international financial support risks becoming politicized as actors move to implement the peace agreements. It will be important that international donors agree upon support within a framework of mutual accountability to avoid divergent, and even contradictory, approaches and outcomes. Such a framework, while important, will also have to overcome skepticism related to the past use of mutual accountability agreements in Yemen.*

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<sup>11</sup> 2011 World Development Report

## IV. Concluding remarks

**45. *The many conflict, social, and economic challenges Yemen is facing post-conflict will require time to heal and time to be addressed.*** Although, the observer to the Yemen case will easily point to the risks ahead for peace building, there is no alternative to overcome these challenges, in phases, well communicated, and by practicing the open participation Yemeni political traditions would suggest. While external support, political and financial, to peace building in Yemen is critical to overcome the conflict mode, the national political leadership's commitment to peace building is more important. In fact, willingness to build peace will generate external support, and not the other way around.

**46. *The reality of major conflict work-out across the globe has shown that tremendous post-conflict support is needed to build peace.*** Such support is not just supporting a reconstruction fund, which can be drawn from, although a fund is certainly helpful. Regional leaders should think about providing Yemen with a perspective for GCC integration and share more horizontally economic and political opportunities. There should be a shared interest among regional stakeholders to build peace in such a forward looking way, which could over time benefit all, in terms of stability, welfare, and enhancing future economic opportunities. Europe and its post-World War II architecture could serve as an example.

**47. *For the short term, though, the prime challenges are:*** (1) rebuilding central national economic institutions, foremost the fiscal system with its budget and the anchor for the financial system, the Central Bank, (2) restoring the hydrocarbon sector as the financial backbone of the economy without which economic stability will be difficult to conceive, and (3) establishing the legitimacy of the central institutions and its leadership. Such legitimacy can be built on delivering reconstruction and restoring public services. Only when Yemenis are able to agree that the public purpose of the central government makes a difference in terms of security, economic well-being, and service delivery (health, education, etc.), legitimacy of the central state and its government can be re-established. Trust – as argued above – is an important building block for legitimacy and can best be practiced where and when it matters most: during the initial peace building period, when scarce public resources, domestic or external ones, are used for restoring and rebuilding, overcoming conflict. The question of how political process is facilitated and choices are best made, centrally and on the sub-central level, can be worked out over time, and, if well-conceived and credible, can surely add to building legitimacy.

**48. *Lacking inclusiveness was seen as a driver of conflict in Yemen, for long.*** With the poor considered to be the group most left out in Yemen, the problem has only been compounded by now. It is estimated that households living below the poverty line increased from 48% in 2014 to an estimated 70% in 2017. Addressing inclusiveness in Yemen could have many entry points but given this massive scaling up of poverty in Yemen, for the immediate, successful recovery would also facilitate more inclusiveness.

## Annex 1: Yemen Recovery Policy Notes - Overview of Policy Actions and Key Short-Term Priorities

*Color coding*

Blue: Analysis	Green: Financing Tool
Red: Rehabilitation and reconstruction	Orange: Relief (Hum-Dev nexus)
Yellow: Domestic revitalization (flows & policy)	Gray: Technical Assistance and Soft systems

	3 months	6 months	12-18-months
<b>I. KEY INSTITUTIONS</b>			
<b>Early Economic Stabilization</b>			
Income support	Food emergency response (demand side): cash transfers for 1.6 million households (minimum), aim to include the new poor (plus 900 thsd. households)		
Income support	Restore minimal fiscal resources to allow for <ul style="list-style-type: none"> <li>i. recovery of minimal working capital for service delivery (including current expenditures)</li> <li>ii. working out of domestic and external arrears</li> </ul>		
Restoration of central economic institutions and priority activity for recovery	Restore functionality of the Central Bank of Yemen to resume essential services to the state, public, and the private sector: international wire transfers, trade finance, remittances, payment systems, attract remittances flows to central bank. An injection of foreign reserves (stock of reserves) would be needed to help to restore the CBY functions	Support 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; Take measures to reverse the de-risking trend to reconnect the Yemeni banking system to the rest of the world. Support development of efficient third-party verification and inspection regime to facilitate trade during the conflict in an in the immediate post-conflict period.	Achieve minimal stock of foreign reserves (3 months imports, i.e. USD 4.5 billion)
	Re-establish oil production, relying on state-owned production blocks	First hydrocarbon exports recovery (see note 2 for the scenarios)	Restoration of two of the nine privately operated blocks

	3 months	6 months	12-18-months
	Recovery of gas production: re-establishing contract sales		Recovery of revenues from gas Full export capacity may be restored (see note 2 for a scenarios)
			Review of Production-Sharing agreements
		Progress in regularizing/rescheduling external debt in support of normal economic operations (investment)	
	Sequence the re-establishment of customs and tax administration; Restart levying import taxes as they are a reliable source and administratively relative easy to manage; consider contracting out to a private firm some custom verification functions to ensure tax receipts	Restart levying consumption taxes	Restart income taxes, applying a uniform rate for simplicity
	Foreign assistance is required at an estimated level of 5-6 percent GDP, absorptive capacity is insufficient, so restoring national systems quickly are of utmost importance		Initiate work on tax reform, to facilitate recovery of productivity levels, and support investment
Re-establishing the Public Financial Management system	Issue a unified emergency budget Rebuild cash balances in Treasury Single Account Restoration of AFMIS, Payroll unification and verification Start inventory of arrears Resume public investment management systems	Mitigation of fiduciary risks, hire Monitoring agents, integrity of payroll data and controls  AFMIS: budget execution, and enforcement of ceilings.  Timetable for liquidation of arrears  Resume public access to budget information, and monthly reports  Launch preparation of new post-emergency budget, including capital budget	Start deliberation of Medium-Term Strategy, including strengthening of PFM systems  Audited financial statements by COCA  PFM unit within MOF
			PEFA assessment, capacity needs assessment, PFM legal framework

	3 months	6 months	12-18-months
			work on fiscal decentralization options (guided by the principles of sharing, inclusiveness, transparency)
Domestic arrangements to facilitate aid absorption	Plan to apply a flexible procurement framework (see WBG MNA emergency procurement toolkit); Build into the eventual aid absorption support arrangements national institutions like the High Tender Board and High Authority for Tender Control  Check regulatory and implementing institutions to ensure implementation into existing structures	Establishment of a recovery implementation support unit (e.g., executive bureau) to facilitate recovery investment absorption. Value is only added, if aid can be transformed quickly into action on the ground.	Strengthen institutional capacity to manage and monitor aid delivery  Strengthen audit institutions to deliver on reporting requirements and transparency promise.
<b>II. CORE PUBLIC SERVICES</b>			
Protection for the most vulnerable	Increased security expands access to humanitarian support. Use SWF as part of Humanitarian-Development-Peace (HDP) continuum; one year of SWF support: about \$400 million	Restart Rural Access Program (RAP), as part of rehabilitation and recovery, and youth employment	
	Link objectives of recovery of fiscal revenues with restoring core services.		
<b>Education</b>			
Restoring education services by supporting a school-based management (SMB) and community-driven approach to	<ul style="list-style-type: none"> <li>Rehabilitate light damages to school by working closely with the community and CSOs.</li> </ul>	<ul style="list-style-type: none"> <li>Support the MOE to print and distribute textbooks and teachers' guides.</li> </ul>	<ul style="list-style-type: none"> <li>Begin school building reconstruction and large-scale rehabilitations.</li> </ul>
		<ul style="list-style-type: none"> <li>Identify large-scale damage and prepare</li> </ul>	

	3 months	6 months	12-18-months
<p>support the restoration of education services quickly and with limited financial resources. This involves engaging closely with CSOs, private sector partners, and mother and father councils in restoring schools and providing services while supporting the MOE with capacity and finances to facilitate a system of school-based management.</p>	<ul style="list-style-type: none"> <li>• Provide school kits, school uniforms, and stationeries.</li> <li>• Provide alternative learning spaces (such as tents) in the absence of school buildings.</li> <li>• Provide transportation to facilitate students’ and teachers’ access to schools or temporary locations and facilities.</li> <li>• Provide meals to students.</li> <li>• Provide psycho-emotional support for students and teachers.</li> </ul>	<p>civil works contracts for the schools that need full reconstruction and significant rehabilitation.</p> <ul style="list-style-type: none"> <li>• Outline large-scale reconstruction for severely damaged schools, identifying and preparing projects.</li> </ul>	<ul style="list-style-type: none"> <li>• Continue psycho-emotional support for students and teachers.</li> <li>• Continue support for school principals and the Mother &amp; Father Committees (MFC), to promote School-Based Management (SBM) and community engagement in school rehabilitation and management.</li> <li>• Support the improvement of the existing education MIS to help MOE collect and manage education data better to redevelop and reorganize education policy frameworks.</li> <li>• Scale up demand-side interventions—such as conditional cash transfers—to incentivize parents in disadvantaged areas to send children to school, especially girls.</li> </ul>
		<ul style="list-style-type: none"> <li>• Provide alternative learning options (flexible-hour schooling, catch up curriculum, recruiting informal teachers from community etc.)</li> <li>• Identify flexible enrollment/examination options for IDPs.</li> <li>• Scale up the existing Rural Female Teacher Contracting scheme to ensure girls’ schooling in rural areas.</li> </ul>	<ul style="list-style-type: none"> <li>• Continue institutional capacity-building support to the MOE, to improve the education service delivery’s scope and quality, and to support SBM.</li> </ul>
<b>Health</b>			
<p>Service delivery at times of limited implementation capacity and scarce resources.</p>	<ul style="list-style-type: none"> <li>• Integration of different service delivery models to provide essential health services across the country - entailing a mix of fixed</li> </ul>	<ul style="list-style-type: none"> <li>• Focus on rehabilitating damaged health facilities and supporting the mental health services along</li> </ul>	<ul style="list-style-type: none"> <li>• Build the capacity of local institutions and health staff to cope with service</li> </ul>

	3 months	6 months	12-18-months
	<p>facility, community based, outreach, and mobile teams' services.</p> <ul style="list-style-type: none"> <li>Engaging local NGOs where possible to support to fulfill last-mile service delivery needs and implementation gaps.</li> </ul>	with secondary and tertiary health services.	delivery challenges.
		<ul style="list-style-type: none"> <li>Set up a system to help people seek health services or receive health promotional messages via text messages</li> <li>Regularize the payment of salaries to health staff and day-to-day operating cost of health facilities.</li> </ul>	Continue analytical assessments and technical analysis of the health impacts of the ongoing conflict as well as the effectiveness of the various interventions associated with different service delivery models.
Energy			
1) Aim for a decentralized service delivery model by providing funding and advice to former regional offices of PEC (municipal level) to repair and reconstruct the heavily damaged urban distribution grids. With an emphasis on restoring the quality of public services such as street lighting, water pumping, telecomm., government services, health, education, etc.	<ul style="list-style-type: none"> <li>Support the restoration of the heavily damaged urban distribution network at the municipal-level.</li> </ul>	<ul style="list-style-type: none"> <li>Focus on rehabilitating ports and road networks to facilitate the supply of skid mounted or containerized grid components to urban substations.</li> </ul>	<ul style="list-style-type: none"> <li>Invest in larger-scale infrastructure leapfrogging to more resilient, decentralized energy services.</li> </ul>

	3 months	6 months	12-18-months
2) expand access to solar energy for the rural and urban population.			
	<ul style="list-style-type: none"> <li>Prioritize restoration of services to critical public services such as, street lighting, water pumps, telecommunication, govt. services, health and education services etc.</li> </ul>	<ul style="list-style-type: none"> <li>Expand access to stand-alone solar systems and/or solar-powered mini-grids</li> </ul>	<ul style="list-style-type: none"> <li>This could be predominantly driven by the private sector, but public investments or support would be needed to expand access to public services and less affluent communities.</li> </ul>
	<ul style="list-style-type: none"> <li>Standardize grid components and materials across the country so that they could be procured easily and quickly.</li> </ul>		
<b>Rural Roads</b>			
Rehabilitating and maintaining at least 5000-6000 km of high priority rural roads is key to relink the economy and improve livelihoods.	<ul style="list-style-type: none"> <li>Prioritize rehabilitation of rural roads critical to other sectors such as agriculture, health and education.</li> </ul>	<ul style="list-style-type: none"> <li>Develop devolved rural roads maintenance programs—empowering governorate and district level authorities—with clearly defined roles and responsibilities for rural roads maintenance, planning, operation monitoring and evaluation.</li> </ul>	<ul style="list-style-type: none"> <li>Reestablish the normal functioning of the MPWH and its associated organizations.</li> <li>Shift the focus from construction of new roads towards maintenance and rehabilitation roads critical to strengthening livelihoods and economic activities.</li> <li>Promote community-based contracting in rural roads maintenance using micro-enterprises to maximize employment opportunities among rural youth.</li> </ul>
	<ul style="list-style-type: none"> <li>Mobilize funds to finance the maintenance and rehabilitation works of rural roads utilizing labor-intensive technologies thus maximizing job creation for rural youth.</li> </ul>	<ul style="list-style-type: none"> <li>Restore Road Maintenance Fund's (RMF's) financial revenues from Road User Charges (RUCs) to meet the needs for losses associated with the elimination of the</li> </ul>	

	3 months	6 months	12-18-months
		fuel subsidies during conflict. Introduce capacity building and training programs, at the governorate and district levels, for local contractors and local consulting firms to develop their technical skills.	
<b>Water Supply</b>			
<p>A localized (deconcentrated and/or decentralized) approach will be essential. However, support, including on the regulatory dimension, will be required from central agencies. A rapid institutional status assessment will be required to determine the capacities of the main agencies (GARWSP, SFD, PWP) and other partners such as UNICEF, Save the Children, Oxfam, national NGOs etc. Based on such assessment a joint plan for identification of needs and the preparation and implementation of recovery and reconstruction program will have to be developed.</p>	<p><b>Rural water supply</b></p> <ul style="list-style-type: none"> <li>• Rehabilitation of components of rural water supply systems that have been damaged during conflicts;</li> <li>• Provision of communal water storage tanks – especially in the areas of IDPs gathering and camps;</li> <li>• Provide short-term fuel assistance to rural water projects;</li> <li>• Water trucking for conflict-affected communities/ displaced people IDPs;</li> <li>• Provide assistance of spare parts and O&amp;M costs to local water corporations/ projects</li> <li>• Provide chlorination and disinfecting service for water sources in rural areas;</li> <li>• Provision of replacement water pumps or pipe networks damaged by conflicts;</li> </ul>	<ul style="list-style-type: none"> <li>• Integrate the private sector into water planning by making it easy for tanker trucks to cooperate with the regulatory agency. Create a partnership with private tanker trucks to deliver water from LWCs well fields and offer them to the customers at affordable cost.</li> <li>• Completion of un completed water supply schemes.</li> </ul>	<p><b>Urban Water Supply</b></p> <ul style="list-style-type: none"> <li>• Establish tanker filling stations – tank-distributed water has become a wide-spread alternative provision mechanism. In order to improve the quality of water provided by tankers, local communities should be supported to set up tanker filling stations and a system of regulating private tankers in towns and cities;</li> <li>• Support sources of back-up power to respond to widespread damage to the electricity production facilities. Short- and medium-term lower cost alternatives should be assessed and supported (e.g. solar)</li> </ul>
<b>ICT</b>			
<p>Immediate steps to focus on fiscal impact of telecom sector revenues,</p>	<ul style="list-style-type: none"> <li>• <b>Cross-sectoral</b> - VSAT deployment for provision of emergency communications</li> </ul>	<ul style="list-style-type: none"> <li>• Cross-sectoral - mobilizing Government and donor bulk payments through</li> </ul>	<ul style="list-style-type: none"> <li>• Public investment into state-owned fibre backbone infrastructure.</li> </ul>

	3 months	6 months	12-18-months
damage assessment and enabling environment of mobile operators and value-added services such as mobile payment and banking, access to market information and early warning alert system for pandemics, security incidents and natural disasters.	for use by Government and humanitarian agencies.	mobile payment platforms.	
	<ul style="list-style-type: none"> <li>Review of existing taxation regime for telecom revenues for fiscal stability. Review would include existing license and spectrum fee structure as well as VAT, excise tax and levies.</li> <li>Review of mobile banking legislation and identify ways to allow mobile operators to provide mobile payment services (different from mobile banking) to speed-up financial inclusion.</li> </ul>	<ul style="list-style-type: none"> <li>Cross-sectoral - Drone use for damage assessment for all infrastructure (roads, schools, hospitals etc.)</li> <li>Damage assessment of telecom infrastructure (PDNA).</li> </ul>	<ul style="list-style-type: none"> <li>Compensation to mobile operator based on damage assessment.</li> </ul>
		<ul style="list-style-type: none"> <li>Executive decision (if not MOTIT, potentially the Parliament) on allowing all operators to use their existing spectrum bands to provide 3G/4G service without a license (e.g. Somalia).</li> </ul>	
<b>III. CATALYZING PRIVATE SECTOR</b>			
<b>Arrest economic deterioration and take visible steps towards restoring production and trade</b>			

	3 months	6 months	12-18-months
	Support domestic construction sector and materials manufacturing: address arrears	Set up Facility to support reconstruction Address obstacles to domestic procurement Restore road maintenance fund	Skills Training Facility
	Restart trade financing	Trade financing facility	
	Repair essential trade infrastructure for food security		
		Facility for private sector revitalization, Support MSMEs through recovery grants	Financial Sector Restructuring Agency
		Reverse De-risking to reconnect banking sector	Investment guarantees to mobilize private sector capital for infrastructure
			High quality analysis for sustaining peace: inform trade relations with neighbors (GCC integration) and labor mobility
			Update of 2015 CEM: groundwork for overcoming the negotiated economy
			Study of detailed policy measures for Jobs creation, including openness and investment, business environment reforms
<b>Repair and rehabilitate major transport and communication</b>	Urgent repairs: Ensure Aden's port, Hodeida's port, Aden, Sana Airports Runaways are operational		
	On the ground granular inventory damage assessment of Ports, Airport, Refinery structure – building on DNA	Identify high priority rehabilitation plans	
<b>Agriculture and Environment</b>	Enhance immediate delivery of food to people in emergency situations.  Promote livelihood creation through community-based environment and natural resource restoration activities executed through a set of urgent but scalable community	Assist conflict-affected small scale farmers or livestock producers to increase productivity or return to produce through provision of a farm restoration support package focused on key inputs, income generating and livelihood assistance.	Developing a new vision for the sector to realize its full potential and contribute to sustainable growth.  Develop options for substituting imports of key staples to minimize dependence on import

	3 months	6 months	12-18-months
	livelihood strengthening interventions.		and internal and external shocks.
		Restore agricultural input and output markets and increase delivery of services and agricultural production system. This includes: Rebuilding local enterprises that produce inputs for the sector. Restoring access to inputs. Support the fisheries sector by working with the coastal communities for job creation and food security in an environmental sustainability manner.	
		Providing investment support to agricultural producers to restore and enhance agricultural production system, including investments in irrigation and community water supply infrastructure.	
		Undertake a rapid situation analysis to collect information about fisheries, forests, agriculture, and rangeland deterioration, solid waste, coastal zones, soil erosion, and desertification.	
<b>Aid Coordination and Delivery</b>			
Policy Area (Planning): objective, Incrementally develop nationally owned recovery and peace building strategy and vision	Rapid Plan for deliverables in first six months finalized and implementation underway  Mechanism and process for inclusive planning agreed	RPBA finalized, including priorities and implementation arrangements  Financing secured Institutional arrangements for implementation agreed	Institutional arrangements established and functioning  Regular monitoring of results, flows, and strategic impact
Policy Area (Coordination): objective, Design and operationalize aid coordination mechanism	Agreement between donors and GoY on required mechanism, and decree issued  Coordination mechanism operational	MAF developed as part of RPBA finalization  Secretariat fully operational and staffed	Six-monthly meetings organized  MAF monitoring and communication around results

	3 months	6 months	12-18-months
		Regular coordination meetings taking place	
Policy Area (Implementation): objective, agree on financing strategy, and design required modalities	<p>Assessment of existing instruments undertaken (Social Fund, Rural Access Program, Public Works, etc.)</p> <p>Gaps identified and process agreed for filling them</p> <p>MDTF design completed if requested</p> <p>Agreement reached on structure of possible dual accountability mechanism for implementation</p>	<p>New instruments designed and operational based on RPBA findings and capacity gap assessment</p> <p>MDTF operational to absorb inflow of aid</p>	Hold MDTF steering committee meetings and learn from initial experience to adjust operations for smooth absorption.
Policy Area (Accountability and Monitoring): objective, Strengthen GoY institutional capacity to manage and monitor recovery period	<p>Finalize design of coordination/facilitation unit (EB) in executive, including capacity and institutional assessment, mandate and resource requirements, while leaving project implementation to line ministries</p> <p>Restore reliance on the reformed procurement system architectures that had already been developed in alignment with international standards (HTB and HATC)</p>	DU/EB operational and able to coordinate GoY recovery and peace building efforts	Implementation assessments based on monitoring results/drawing first lessons to adjust implementation

## Annex 2: Republic of Yemen: Selected Economic Indicators, 2010–17

	2010	2011	2012	2013	2014	2015	2016	2017
						Prel.	Prel.	Proj.
<b>National Income and Prices</b>								
(Change in percent, unless otherwise indicated)								
Nominal GDP, market prices (billions of YR)	6,219.3	6,480.5	6,785.8	8,462.7	9,289.3	8,108.6	7,648.9	9,812.0
Real GDP growth	7.7	-12.7	2.4	4.8	-0.2	-28.1	-9.8	5.0
Hydrocarbon sector growth	46.9	-14.5	-11.5	13.2	-11.3	-61.0	-87.0	447.4
Nonhydrocarbon sector growth	4.4	-12.5	4.0	4.0	1.0	-25.0	-6.0	2.0
CPI (period average)	11.2	19.5	9.9	11.0	8.2	39.4	5.0	20.0
Hydrocarbon production (in thousand barrels per day)	426	364	322	365	324	126	16	90
Crude Oil	264	197	155	175	156	59	16	90
LNG (oil equivalent)	162	167	167	190	167	67	0	0
<b>Central Government Finances</b>								
(In percent of GDP)								
Revenue and Grants	26.1	25.3	29.9	23.9	23.6	12.9	10.8	18.6
of which hydrocarbon revenue	16.5	16.5	14.1	12.8	10.6	2.9	2.3	6.2
of which grants	1.2	1.2	6.1	0.9	2.7	0.5	0.0	3.7
Expenditure and net lending	30.2	29.8	36.2	30.8	27.8	23.5	24.4	24.6
Current, of which:	25.5	27.8	32.5	28.4	26.9	23.5	23.8	22.8
wages and salaries	8.7	10.0	11.1	10.2	10.0	11.3	11.4	10.2
subsidies	8.7	8.1	9.3	7.2	5.6	0.7	0.9	1.4
Capital	4.7	2.0	3.7	2.4	1.8	0.8	0.5	1.9
Overall fiscal balance (excl. grants)	-5.3	-5.7	-12.4	-7.8	-6.9	-11.1	-13.6	-9.7
Primary non-oil fiscal balance (cash)	-19.4	-17.9	-21.1	-15.2	-12.3	-6.5	-7.6	-8.7
Nonhydrocarbon primary fiscal balance (cash) excluding grants								
Gross Public Sector Debt	42.9	45.7	47.3	48.2	48.7	66.7	83.8	75.8
Domestic debt	23.0	27.1	29.9	33.0	34.5	51.2	63.6	56.2
External debt	19.9	18.6	17.4	15.2	14.3	15.5	20.3	19.6
<b>Monetary data</b>								
(end-of-period annual growth rate)								
Broad money	9.2	0.0	21.5	12.5	0.2	3.1	13.0	18.2
Reserve money	7.7	15.8	12.9	1.9	1.4	27.4	23.8	10.7
Credit to private sector	8.2	-16.9	-0.6	38.9	2.6	-22.3	1.3	15.7
Benchmark deposit interest rate (percent)	20.0	20.0	18.0	15.0	15.0	15.0	15.0	15.0
Velocity (non-oil GDP/M2)	2.4	2.3	2.4	2.4	2.4	2.4	2.4	2.4
<b>External Sector</b>								
(In millions of U.S. dollars, unless otherwise indicated)								
Exports (goods & services)	9,271	9,929	8,802	9,037	9,287	3,864	898	2,749
of which hydrocarbon (oil and gas)	6,279	7,731	6,332	6,537	6,774	2,440	248	1,755
of which nonhydrocarbon	1,369	931	1,017	1,102	1,132	501	125	219
of which services	1,622	1,267	1,453	1,398	1,390	923	524	775
Imports (goods & services)	10,629	10,708	12,921	12,186	12,257	8,485	6,855	8,420
of which hydrocarbon	2,073	2,578	3,840	3,265	3,094	1,278	1,373	1,711
of which for food	2,476	2,725	2,692	2,701	2,645	1,859	1,450	1,740
of which services	2,156	2,165	2,680	2,294	2,525	1,896	1,339	1,738
Current account balance (in percent of GDP)	-3.4	-3.0	-1.7	-3.1	-1.7	-5.5	-6.1	-4.2
<b>Reserves</b>								
Central Bank own gross reserves (billions US\$ end-period)	5.1	4.0	5.6	4.8	4.1	1.5	0.6	1.1
Central Bank own gross reserves (in months of imports)	5.7	3.7	5.5	4.7	5.7	2.6	0.9	1.2
<b>Exchange Rate</b>								
Exchange rate (per US\$, official rate)	219.6	213.8	214.3	214.9	214.9	214.9	250.0	...
<b>Memo Items</b>								
Nominal GDP in billion US\$	30.9	32.7	35.4	40.4	43.2	37.7	27.3	27.2
Population (in millions)	23.6	24.2	24.9	25.5	26.2	26.8	27.5	28.2
Nominal per capita GDP (US\$)	1,310	1,350	1,423	1,583	1,651	1,406	993	964

Source: Yemeni authorities; and staff estimates.

### Annex 3: The National Dialogue Conference - ending violence through institutional change and aiming for inclusiveness

***Successful recovery in Yemen will depend on building a better and more inclusive institutional environment in Yemen; successful state building includes taking account of the local/sub-central level and how it relates to the central level, and vice versa.***

***The NDC was launched to create an inclusive dialogue among different groups/stakeholders in Yemen to form the nucleus for a new Social Contract in Yemen.*** The GCC and UN inspired transition from 2011 prescribed a National Dialogue Conference (NDC) to address existing grievances in Yemen, foster an inclusive dialogue among different groups/stakeholders within the country to negotiate a new governance framework, through which new, more inclusive and sustainable economic and social policies were hoped to become possible. Launched in March 2013, the NDC, debated and questioned the orientation, balance, breath, and appropriateness of the Yemeni institutional architecture, central as well as local, to identify ways for rebalancing, reforming, and make the state more responsive to the citizen's need (see annex 1). The NDC was conceived to overcome perceived and identified *drivers of conflict*, and give way to a more inclusive as well as effective development of the country, expected to lead to more equity and social cohesion. A dramatically enhanced state governance while also allowing the private sector to become more competitive and productive were seen as key prerequisites for success. The NDC was critical in forming a consensus on a series of guiding principles aimed at guaranteeing rights and freedoms, reducing the centralization of power, eliminating corruption, empowering women and youth, among others. It is debatable whether the NDC failed or rather, whether its translation into well sequenced policy actions failed in an environment charged with high and diverse expectation about change.

***The NDC and its emerging results overwhelmed a very fragile political balance and transition government.*** Expectation were high that the NDC results would inform a reform program that could be initiated under the transition government, and would finally allow Yemen to transform and become a more effective case for development. The range of issues discussed in the nine working groups were very ambitious (see also the annex). They included extremely contentious challenges, such as the Southern Issue, the ingrained culture of corruption and patronage, the management of natural and depleting resources in Yemen (e.g. water), and last but not least the reorganization of the state in form of Federal States. While the NDC debate happened at a protected site in Sana'a, shielded from the wider public, President's Hadi's unity government had to meet day to day needs of the Yemenis. The NDC process and the Hadi government were, however, politically not synchronized. While time and probably also protection was needed for the NDC deliberations and consensus building, the deliberations were not used politically by the unity government to manage expectations and drive a more public debate on its content in support of unity or forming a basic consensus on key reforms. The NDC was not leveraged politically. Instead, the unity government was visibly fragmented along Yemen's known political default lines and unable to stir inspiration about a new Yemen or meeting social and economic demands of ordinary Yemenis, despite all efforts. The international community proved not to be able to serve as the constructive partner in the background to this process and help to weather through the intricacies of a very fragile and demanding transition process.

*For a post conflict in Yemen, the NDC outcomes will remain to serve as a valid starting point for a dialogue about governance, inclusiveness, justice, and economic reform in Yemen.* The NDC has produced a wide blueprint for improving governance and living conditions in Yemen, promising to lead potentially to a new social contract in Yemen. Despite of its failure to serve as an interim tool to a peaceful transition in Yemen in 2014, the NDC deliberations, its outputs and 1850 recommendations will form the base and starting point for any post-conflict reform debate in Yemen. The value of the NDC is regardless of whether the envisaged federal state concept can be addressed or its initial failed set-up be successfully concluded, which many observers believe has led to the most recent cycle of violence. However, a key lesson from the 2012-2014 transition phase is that fundamental reform projects, like e.g. forming a federal state, take more than a National Dialogue Conference and a transition government. Identifying reform needs and drafting a blueprint is different from tackling important reforms, especially in a fragile and fragmented political context like Yemen. By far more patience is needed with driving and implementing reform. The political and security imperatives of an immediate post-conflict period (the first 2 years) will leave only a small path for priority reforms, however they may be politically or economically desired. Maintaining realism about the capacity for reform and change in Yemen would help to go this small path.

## A summary of National Dialogue Conference Outcomes

### First Working Group: The Southern Issue:

This working group was expected to examine grievances the Southern Yemenis felt they were subjected to since unification, particularly after the 1994 civil war. The grievances expressed were especially related to seizure of property, including land, and the loss of jobs. The Working Group (WG) started its deliberations by trying to forge a consensus around the root-causes of the issue—including a long historic, economic, political, cultural and legal dimensions. Members within the group representing different political parties and societal segments (both in the North and South) were invited to submit their potential solutions (visions) on key issues, as well as plans for implementation.

**Results:** The WG document formally recognized the injustice that southerners had experienced since unification and provided validation to the Southern Secessionist (Hiraak) movement. The WG result document included mechanisms to compensate Southerners for their suffering and losses. In addition, the so called ‘Just Solution’ was identified as a summary response to grievances. A key element of the ‘juts solution’ is the recommendation to grant greater autonomy to the south under a planned federal system.

### Second Working Group: The Sa’ada Issue:

The Sa’ada Issue Working Group (WG) was created to discuss the sources of tension in and with the northern Yemeni governorate of Sa’ada that led to six domestic wars between the Houthi insurgency and the Yemeni state between 2004-2010. One of the important role of the WG was to highlight the varied understandings of the historical roots of problems in Sa’ada and to find possible ways to ease tensions and promote a climate of trust between groups.

**Results:** The WG outcome emphasized the right of intellectual and sectarian freedoms of Yemeni citizens and the right to enjoy all individual freedoms regardless of their religious sect. The WG also recommended that the government approve creation of state employment for citizens of the Sa'ada governorate and compensate for jobs lost in the past due to the wars. The WG recommended compensation to those who were injured, detained, imprisoned, tortured or harassed in any way, and to families of those who died as a result of the Sa'ada wars. The outcomes also called for the return and compensation of populations forcefully displaced due to the wars. Finally, the WG also called for the revision of school curricula to minimize controversies associated with religious sects.

### Third Working Group: National Dimension, Reconciliation & Transitional Justice

The WG on National Issues and Transitional Justice was tasked with finding consensus around ways to end human rights abuses and breaches of international law in Yemen. The WG was expected to explore the steps needed to guarantee national reconciliation and transitional justice. Specifically, the WG discussed support for the victims of human rights abuses and their families, the provision of compensation for those who have suffered losses and damages as a result of injustices, and the introduction of constitutional and legal safeguards to prevent violations of human rights in future.

**Results:** The WG found consensus around guaranteeing the reparation to be paid or granted to victims of law abuses. The state was obligated to provide sufficient and effective forms of reparation to victims proportionate to the gravity of the abuse. The concept of reparation was broadly defined as including rehabilitation, restitution and integration and was identified as including individual or collective claims. The WG also highlighted the need to pay special attention to the situation of the elderly, women, children and person of disability. The WG emphasized the right of victims of human rights abuses to have free access to litigation (i.e. the state pays the costs of litigation).

### Fourth Working Group: State Building

The state-building WG was responsible for forging consensus on a host of issues relating to the state structure, including the presidential versus parliamentary system, centralized versus decentralized systems, and the structure of local government institutions. The WG was tasked to explore ways in which the constitution could guarantee equality among citizens and respect for diversity, as well as basic rights and human rights, with a special emphasis on the rights of women, children, minorities and vulnerable and marginalized groups.

**Results:** The WG recommended a federal, democratically organized state which enshrined human rights and a political system based on political pluralism and the primary source of legislation to be the Islamic Shariya'ah. The WG also called for a bicameral system elected via a proportional list system with a Parliament and a Federal Council (at the level of regions or the to be formed federal polities). The economic development, including for exploring and producing natural resources, was to be led by the regions while the federation was meant to be responsible for equitable wealth sharing. The WG also called for at least 30% women in high offices, elected bodies and civil service. However, the WG did not find consensus on the question of the number and borders of the regions (federal polities) and left it to be determined afterwards.

### Fifth Working Group: Good Governance

The WG tried to find consensus around the right approach to addressing the topic of good governance. This was believed important to renew the state's relationship with citizens. The WG explored key issues affecting the relationship between state and citizens, including: the balance of authority and responsibility; the enforcement of accountability and transparency measures; the achievement of justice and equality; anti-corruption measures; equal opportunity among citizens; and the competence of public administrations. Among other things, the WG also discussed the roles of political parties and civil society organizations, and ways to expand popular participation in politics.

**Results:** The outcomes emphasize the need to ensure the role of the judiciary in strengthening transparency, accountability and access to information. The WG called for the establishment of a national information system capable of responding to the needs for planning, control and accountability. The WG found consensus around addressing the problem of dealing with an inflated civil service by introducing an electronic biometric system to regulate both the civilian public sector and the military within one year. The WG also recommended to ministries and administrative units developing simplified procedures to reduce the number of administrative steps to access services and their delivery to the citizen. The WG emphasized the important role the private sector should play in support of good governance.

### Sixth Working Group: Building the Foundations and the Role of the Army and Security Agencies

The WG was tasked with discussing and preparing decisions on the role and reforms for the Yemeni military and security set-up. The demand to refashion national army and surrounding security agencies and enable it to play a more professional role. The primary focus of the deliberations was around developing the identity of Yemen's military and addressing such topics as the military's role in Yemeni political life and the question of how Yemen's sovereignty can best be protected. The WG also explored certain direct concern of citizens, such as the military's presence in cities and at checkpoints.

**Results:** The WG made several recommendations aimed at restoring the trust between the people and the military, security, and intelligence services. These include: establishing a High Council for National Defense and National Security; prohibiting members of the military, security and intelligence service from active participation in politics while in service; criminalizing partisan activities of service members in active duty; developing a military doctrine for armed forces derived from constitutional principles to make the military a national and professional army; and generally submitting the military, security and intelligence services to the authority of the constitution and the law.

### Seventh Working Group: Independence of Special Entities

Members of this WG were tasked with discussing and proposing ways in which the rights of vulnerable segments of Yemeni society can be protected. The WG members paid particular focus on investigating the quality of life and living conditions of vulnerable groups, including children, minorities and displaced persons. They discussed obstacles to providing adequate protection for citizens and measures required to make existing policies more effective or, where needed, the

development of alternative policies and new legislation. The WG called to ensure the independence of media organizations, civil supervisory institutions, and religious endowments.

**Results:** The WG laid out several general provisions and legal directives (1) to define the tasks of respective independent institutional bodies, (2) to ensure their effective performance, (3) to provide clarity to their functions and independence, and (4) to enhance their transparency and partnership with society, including on issues related to water, Qat, environmental issues, and the proliferation of guns and armed groups. The WG also recommended a series of independent institutions, including on Extractive Industries, Civil Service, Audits, Elections, Central Bank, ,Corruption, Youth, Women, Human Rights to advice on policy issues and possible directions through public debate.

### **Eight Working Group: Rights and Freedoms**

The Rights and Freedoms WG discussed ways in which equality among citizens, respect for diversity, and basic human rights, with a special emphasis on providing for the rights of women, children, minorities, and vulnerable and marginalized groups could be guaranteed. As part of its deliberations, the WG explored how constitutional provisions guarantee and enforce citizen rights and freedoms in other nations and how constitutions of other Arab nations addressed such matters.

**Results:** The WG found consensus on constitutional principles that regulate public rights and freedoms (i.e. economic, social, political, civic, cultural, intellectual, and doctrinal) as well as individual rights and freedoms (i.e. women, youth, child, early marriage, the marginalized, persons with disabilities, emigrants, minorities, IDP's and refugees). The WG also managed to agree on a set of constitutional guarantees to maintain and protect rights and freedoms and ensure that these principles are adhered to and not violated when developing laws and legislations. The WG identified several independent bodies that could be established to maintain rights and freedoms and to monitoring and surveillance and prevention of violations of these rights and freedom; or breach any of the principles produced and adopted. A new draft constitution has been developed as part of its deliberations.

### **Ninth Working Group: Comprehensive, Integrated and Sustainable Development**

The Sustainable Development WG was responsible for forging consensus around promoting economic development in Yemen, with special attention to such matters as cooperation with international development agencies, donors, and support for small businesses and microfinance enterprises. The WG also focused on the roles of the private sector, civil society organizations and individuals in terms of comprehensive development efforts. In sum, the WG was expected to deliberate on how development in Yemen could be promoted in a comprehensive, integrated and sustainable manner.

**Results:** The WG reached consensus around the need to ensure freedom of economic activity that meets the interests of individuals and society, and enhances national independence. It also called for social justice in economic relationships that aim to develop and improve production, as well as achieve social balance while allowing raising the country's living standards. The WG also encouraged the government to ensure competition, equal treatment between the sectors, and good governance. The need to protect and respect private property rights was a theme that ran through the entire set of recommendations.

**Final comment:** The NDC identified 1800 recommendations. A detailed listing of the recommendations and other documentation can be found at: <http://www.ndc.ye/default.aspx>.

## Annex 4: Summary of Service Sector Policy Notes (input notes)

### Energy sector

The focus of the World Bank and other donors in supporting the Energy sector in Yemen previously had primarily been on financing large scale public-sector infrastructure aimed at increasing the provision of electricity. However, severely weak institutional capacities of the Public Electricity Cooperation (PEC) and Ministry of Electricity and Energy (MEE) had prevented the country from leveraging this support to the maximum extent, instead dividing the country into those with access to electricity and those without. Therefore, the note suggests the exploration of alternative models of service delivery keeping in mind the vital role that electricity plays in improving livelihoods, supporting other public services and strengthening the overall economy. The proposed alternative method calls for adopting simple, flexible and innovative solutions—including solar power—with a greater focus on supporting public services and pro-poor outcomes based on a decentralized or municipal level focus with innovative procurement and financing arrangements.

### Transport

The policy note on the transport sector identifies several issues plaguing Yemen's transport sector, including the weak and underdeveloped planning and budgeting process, gross mismanagement within Ministry of Public Works and Highways (responsible development of the entire road network in Yemen) and Ministry of Transport (responsible for the development of ports, airports, land and sea transportation needs of Yemen), inadequacy and unreliability of data and maps, and poorly coordinated upgrading of existing roads and maintenance etc. as being the most critical issues facing the sector. The policy note goes on to highlight that, despite the establishment of an autonomous Road Maintenance Fund (RMF) in 1996, with its own revenue source and maintenance planning capability, the road sector remains severely underfunded. In the immediate aftermath of the conflict, therefore, the note identifies the need to provide emergency support for rehabilitation and maintenance of physical infrastructure in key cities like Aden and Sana'a, ports of Aden and Hodeidah, and upgrading of aviation safety equipment, before supporting broader institutional and governance reforms in a more medium to long-term timeframe.

### ICT

Experience around the world (from Afghanistan, Iraq, Somalia) has shown how the telecommunication sector could be extremely resilient even in fragile and conflict situations. This is often attributed to the high profits that telecommunication markets tend to yield, both for private and public operators, even during conflict—in some instances becoming even more profitable than in peace times. At the same time the note emphasizes specific challenges that mobile operators in Yemen face including direct attacks on their infrastructure and tribal demands to allow access to engineers to damaged infrastructure in their territories etc. The note also points out the great potential that reliable telecommunications can play in stabilizing post-conflict situations. The restoration and availability of telecommunications directly supports the building of public confidence in the state thereby fostering peace and stability. Additionally, the ability to communicate and share information across the country in a uniform and unified manner helps the government re-establish its government apparatus at the national, governorate or the district and village level, allowing it to respond better to its citizens. Also reliable information can help dispel

misinformation, propaganda, and rumor etc. which may fuel tensions. Moreover, ICT also helps donors better coordinate their humanitarian relief while supporting civil participation and greater inclusiveness.

## Water

Highlighting that Yemen is one of the most water scarce countries in the world, Yemen's WASH diagnostic identifies several of the country's cities rapidly running out of water. At the same time, as poverty has been steadily increasing in Yemen over the past decade, the diagnostic identifies that this has exposed the poor to even greater livelihood risks. Though there have been modest improvements in water and sanitation services, the report points out, stark gaps between the urban and rural areas as well as among the poor and the non-poor have put these gains at risk as well. While emphasizing the need to strengthen WASH service provision and for the sector to become financially sustainable, the diagnostic also point-out that the most appropriate combination of local and central support for and control of the water sector will ultimately be dependent on the shape and conclusion of the on-going conflict. In the immediate term, the diagnostic identifies the need to reconstruct and rehabilitate water systems and work with alternative service providers in a safe, sustainable manner. Meanwhile, in the medium and long-term, the diagnostic highlights the need to address systemic issues relating to the sustainability of water and sanitation services.

## Health

Historically support to the Health sector has tended to revolve around providing fixed-facility healthcare with subsidized drugs and healthcare packages through outreach interventions. However, issues of access and quality had led to an underutilization of these services. Therefore, the new approach calls for a mixed approach adopting a whole gamut of methods including fixed-facility, mobile teams and community based outreach to expand the coverage of the services to a maximum extent. The approach also calls for building capacities of local-level institutions and staff building closer partnership with local CSOs and private sector for last-mile service delivery support.

## Education

The policy note on education identifies the main post-conflict challenges facing the sector to be the lack of a common vision among different stakeholders and the Ministry of Education (MoE) and the lack of clarity on roles of responsibilities of various levels of government (central, governorate, district levels), NGOs, Civil Society Organizations (CSOs) and private sector partners. Additionally, it identifies capacity constraints (of school leadership and parent councils), weak fiduciary mechanism, and lack of adequate monitoring and evaluation mechanisms to track progress undermining the sector. The policy note proposes a series of immediate post-conflict interventions ranging from immediate support to get the schools functioning including the rehabilitation of light damages, providing textbooks, providing alternative learning options for IDPs and out-of-school children, as well as psycho-social support for students and teachers. In a more medium to long-term timeframe the note proposes training and support for teachers, school leadership, and parent councils and broader institutional capacity building support to MoE to improve scope and quality of education services. In the long term, the note calls for recognizing the value of education in strengthening social cohesion and building a long-term strategic vision of using education as a means of strengthening state legitimacy.

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