YPSC
Yemen Private Sector Cluster
تكتل القطاع الخاص اليمني

POLICY FRAMEWORK

TO ENGAGE THE YEMENI PRIVATE SECTOR CLUSTER IN ECONOMIC DECISION MAKING AND THE ONGOING HUMANITARIAN, DEVELOPMENT & PEACE EFFORTS

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This document is intended to set a broad framework for development of policy and procedures related to curbing the impact of the conflict on the Yemeni private sector and economic activity. It also aims to identify a set of priority actions to guide the ongoing efforts aiming to address the most critical challenges faced by the private sector during these troubling times, mainly because of the ongoing conflict and the resulting fragmentation of institutions. It builds on lessons learned and practice-based evidence of what could make the private sector in Yemen more resilient and better-placed to respond to the complex challenges that have been identified in this document.

Overview:

The Yemen Private Sector Cluster [YPSC] was launched in January 2019 to develop a coherent vision for the private sector and to unify the efforts in responding to the challenges caused by the conflict to private sector operations in Yemen. The cluster is an inclusive body made up of private sector representative bodies including the Federation of Yemen Chambers of Commerce, chambers of commerce Sana'a, Aden, Dhamar, Hodeida & Hadramout, private sector institutions, management organizations, unions and associations. These in turn represent over 300,000 micro, small, medium and large enterprises[1].

The main aim of establishing the cluster was to have a unified platform voicing and advocating for the concerns and challenges faced by the private sector in Yemen and finding solutions to ease the private sector conditions of operations. The role of the private sector during the conflict and at the peak of the humanitarian crisis was greatly undermined and still is even though the sector remains a vital pillar of stability in the country. The sector remains a major creator of jobs with the dwindling livelihoods and job opportunities in the country. Its role in job creation has provided thousands of households with stable incomes and maintained jobs to support food security, access to health and education. The private sector is also the alternative provider of basic services in the country. However, the sector faces major challenges which threatens their operations and survival. Hence, the cluster members came together to develop a policy memo to address these issues. The memo highlights three main pillars:

1. Engaging the private sector in economic policy making
2. Enhancing the role of the private sector in humanitarian and development efforts
3. Enabling robust private-sector participation in recovery and reconstruction programs and projects

The pillars are designed to tackle several macro and micro economic challenges with attainable objectives. These objectives require the support and commitment of concerned authorities, parties to the conflict and significant assistance from the international community and donor agencies both during the conflict and post conflict. This is because addressing such challenges is beyond the capacity of the private sector, and involves peacebuilding, restoring government capacity, and strengthening or re-building capable institutions. It also requires ending the economic-related sanctions and restrictions, re-opening of cross border trade and facilitating movement of people and labor, and

[1] Official data from FYCC.

creating a more enabling environment, which involves developing policies, creating legal frameworks, and establishing proper and inclusive investment and financing structures.

Since it's launching in 2019, YPSC held several meetings with various international institutions, such as the World Bank Group, the EU, the IMF, and the DFID to explore synergies and foster mutual understanding and cooperation to help the YPSC in achieving the aforementioned objectives. However, while noting that bringing the private-sector actors together to form the cluster is in itself a major achievement and a positive step toward facilitating private sector recovery and growth, the YPSC is in high hopes that the international community, international organizations and financial institutions, and the donor agencies would offer concrete support to help the cluster accomplish many of the objectives it strives to achieve.

The YPSC identified a set of critically important challenges that must be urgently addressed to mitigate the impact of conflict and to stabilize the macroeconomic environment, at the forefront of which is the halting of economic decline. These are:

1. Fiscal and monetary policies
2. Infrastructure, transportation, and the movement of people and goods
3. Enforcement of laws and regulations

1. Fiscal and Monetary Policies

In 2018, Yemen ranked 186 in ease of doing business[2], compared to 99 in 2010, and 133 in 2014. This alone demonstrates the magnitude of loss and reverse in development gains caused by the conflict. The macroeconomic situation in Yemen is plagued with huge constraints. The extremely challenging economic conditions are mainly the by-products of conflict-related political interests and politicization, at the forefront of which are the adopted detrimental fiscal and monetary policies and the fragmentation of state institutions, including the Central Bank of Yemen [CBY]. The economic situation cannot be improved unless the institutional fragmentation and policy failure are addressed. In particular, fiscal and monetary policies must be unified on a national level and based on objectivity and economic principles without politicization.

The conflict and the adoption of the current fiscal and monetary policies created a myriad of challenges and led to high inflation rates, disruption of economic activity, a sharp decline in public revenues, especially since the disruption of hydrocarbon exports, unhedged foreign currency exposures, a sharp devaluation of the national currency, and unprecedented levels of volatility in financial markets, as well as the depletion of CBY reserves, and an acute domestic currency liquidity crisis. Such disintegrated fiscal and monetary policies were formulated based on politicized decisions and used as a tool for influencing the course of conflict without taking into account moral considerations or even the humanitarian context.

The impacts are manifested in various forms such as: differences in exchange rates in different Yemeni governorates, huge differences between cash transactions and check paid-out transactions (a margin of up to 25% is added on check transactions), differences in the value of old and newly printed bank notes, and great instability in commodity prices. That is in addition to the frozen funds abroad and the serious challenges facing the banking sector in providing financial services, including the transfer of foreign currency abroad because of conflict imposed restrictions. European and US banks have closed the accounts of Yemeni commercial banks abroad due to compliance concerns related to obligations to prevent money laundering and curb financing of terrorism, a problem rooted in the lack of a uniform monetary policy with regard to controlling and monitoring financial transactions.

To conclude, the conflict and the adoption of politicized fiscal and monetary policies have led to devastating consequences, including the exacerbation of poverty and food insecurity and a sharp decline in household purchasing power, as well as disruptions to financial services, which severely affected the heavily burdened private sector by creating more barriers to doing business, and added an enormous cost to the already ailing economy.

2. Infrastructure, Transportation, and the Movement of People and Goods

The overall impact of the ongoing conflict on the infrastructure and the transportation network has been staggeringly devastating. Apart from the substantial damage caused to the infrastructure and the transportation network, arbitrary restrictions on movement of people and goods were imposed, leading to huge delays in delivery of supplies and inputs, reportedly taking an additional 14 to 90 days

[2] Doing Business 2018, Comparing Business Regulation for Domestic Firms in 190 Economies – World Bank

compared to delivery at pre-conflict times, as well as an increase in operational and production costs -- far exceeding inflation rates. It also caused an in increase in the costs of warehousing and transport and hindered the movement of workers. The government's spending on infrastructure, and the construction and maintenance of roads came to a complete halt during the conflict, making the situation even worse.

The impact of the conflict and the arbitrary restrictions on the movement of people and goods, including the closure of several air, sea, and land ports, in addition to import restrictions, and lack of access to roads along the domestic supply lines have severely impacted international and domestic trade, and caused widespread disruption of basic services and economic activities, and severe fuel shortages, which also contributed to the dramatic rise of transportation costs, affecting all economic sectors. The substantial spending of businesses on taxes and other extortion fees imposed by different authorities, parties to the conflict, and even non-state actors at several checkpoints along the roads has also aggravated the burden on the private sector and led to extra overrun costs and delays. Moreover, rampant corruption, the delays in getting permits, and having to get more than one permit from different conflicting authorities because of the fragmentation of state institutions, in addition to the situation of insecurity and the costs of crime on businesses, all add to the challenges faced by the private sector. Businesses have reported that transport and delivery costs have increased up to tenfold compared to pre-conflict times, and even though this cost burden is transferred to the consumer, it drastically impacts economic activity.

3. Enforcement of Laws and Regulations

During the ongoing conflict, the authorities and the parties to the conflict have been persistently violating the laws in force, at the forefront of which are the business-related regulations and the laws that influence the business environment in general. Such violations are manifested in many ways, including extortion, illegal taxation, protection payments, and forced contributions, which not only imposed a significant burden of cost on businesses, but also had a more severe impact on trade flows and introduced additional obstacles and barriers to doing business. Needless to say, in such a context, businesses are considered a major commodity of war and imposing illicit levies on businesses provide for an extremely important source of income for many of the parties to the conflict. Additionally, and because of institutional fragmentation on local and national levels, taxes, custom duties, and other fees are forcibly collected more than once at different ports and checkpoints, including -- in some cases -- those that are supposed to be run by the same party.

In some limited cases, the enterprises, which resorted to courts succeeded in eliminating the cost of duplication. However, there has been many other cases, in which private-sector enterprises were prevented from going to court, in one way or another. The other serious issue in this regard is that there are ongoing attempts to legitimize such acts by proposing new politically motivated laws to be passed and enacted by the fragmented Parliament during the ongoing conflict. This will further impact businesses and introduce many other challenges, especially since the private sector was represented and consulted when the pre-conflict business-related regulations were enacted. It is a very different story today, as much of what is sought to be passed and enacted is politically motivated and related to the conflict and institutional fragmentation without considering the overall macroeconomic

situation and the impact on businesses and livelihoods. Furthermore, the private sector is currently not engaged in economic policymaking or in contributing to the drafting of such laws.

To conclude, the private sector is facing huge challenges stemming from policy failures, and the weakness and fragmentation of public institutions, including those related to lack of law enforcement, the inefficiency of legal frameworks and policies, political instability, rampant corruption, excessive bureaucracy, business costs resulting from insecurity, terrorism, and violence, irregular payments and bribes, illegal taxation, and forced contributions.

YPSC Recommendations and Appeals:

The YPSC believes that addressing such challenges effectively requires the collaboration of all concerned actors, including the private sector, the parties to the conflict, the international community, donor agencies, and development finance institutions. This would entail a successful inclusive peacebuilding operation, with the mediation and good offices of Mr. Martin Griffiths, Special Envoy of the Secretary General of the United Nations for Yemen, and the strong support of the international community. It also requires restoring government capacity, strengthening or re-building capable institutions, ending the economic-related sanctions and restrictions, re-opening of cross border trade and facilitating the movement of people and labor, and creating a more enabling environment, which involves developing policies, creating legal frameworks, and establishing proper and inclusive investment and financing structures. The full commitment of the parties to the conflict would also be necessary to implement the proposed actions.

The YPSC has identified the most-pressing issues and challenges and listed a number of recommendations and appeals to the various actors, who can collectively bring about a positive change and address the identified challenges.

1. Fiscal and Monetary Policies

A) The Parties to the Conflict:

1. Reinstate the CBY's board of directors and ensure the autonomy, independence, and impartiality of the CBY as provided by law.
2. Reinstate the private sector position on the CBY's board of directors to serve as a representative for the private sector as provided by law.
3. Reactivate the coordination structures between the parties responsible for formulating the monetary policy (CBY) through formulating a specialized and fully authorized coordination committee mandated with the implementation of the committee's policies and decisions. The committee shall also include members representing international finance institutions to ensure effective and continuous coordination. The committee shall be tasked with unifying monetary policies on the national level, including those related to the national currency, as well as enhancing the control and monitoring of banks and financial institutions to ensure, among other concerns, full compliance with the anti-money laundering and counterterrorism financing regulations, in addition to the unification of exchange rates and all other fiscal and banking-sector regulations.

4. Instate a position for the YPSC on the coordination committee to serve as a representative for the YPSC so as to help in promoting a convergence of views among the members of the committee and identify policy vulnerabilities which might impact the economy and businesses.
5. Adopt measures for tapping into critical sources of public revenues, including the resumption of oil production and gas exports, rebuilding the tax base, and the depoliticization of special revenue funds.
6. Removing obstacles for the banks to deliver the reports to the Money Laundering and Anti-Terrorism Committee and giving banks the opportunity to deliver these requirements to the authorities concerned in order to avoid any catastrophic consequences for the national economy and the banking system.

B) The International Community:

1. The YPSC calls on the international community to make the economic situation in Yemen an area of high priority and to demonstrate the seriousness of its commitment to addressing major economic challenges, at the forefront of which are those related to the unification of fiscal and monetary policies on the national level. The assistance of the international community would be needed to coordinate efforts and put sufficient pressure on the parties to the conflict to ensure the depoliticization of fiscal and monetary policies, and to address and curb the impact of the ongoing conflict on the banking system and the private sector.
2. Engage and mobilize international finance institutions in providing a broad range of advisory services and technical support, including -- but not limited to -- the hiring of international experts to serve as members of the aforementioned coordination committee tasked with the formulation of fiscal and monetary policies, and to what ensures bringing the CBY and all other banking and financial institutions in Yemen into full compliance with anti-money laundering and counterterrorism financing regulations.
3. Facilitate the implementation of the agreed economic-related commitments of the parties to the conflict, being vital to the economy and the humanitarian situation, including:
   3.1 The payment of public workers' salaries
   3.2 The payment of outstanding government arrears to contractors and suppliers of goods and services.

C) Donor Agencies

1. Provide all forms of support for the formation of the coordination committee (as a step toward the formation of a high-level national council) mandated with the formulation of national fiscal and monetary policies. This will effectively contribute to setting up a framework of a high-level national policy dialogue, bringing in all the key actors in the public and private sectors, with the strong backing of donor agencies and development finance institutions to design relevant policies and reforms, present viable options based on local context, and agree on the priorities for action. The

support of donor agencies will also be necessary in helping the concerned actors in the implementation of priority actions and policies on a local and national level, as well as in creating a more enabling environment, which is a basic prerequisite for the success of all other economic-related interventions.

2. Provide sufficient financial support to facilitate the injection of liquidity into the banking system in order to restore critical finance capabilities and services, help in financing the imports of basic goods and in stabilizing the macroeconomic environment, enhance the performance of the banking and financial institutions, curb the impact of the crisis liquidity, and to help avoid the steep devaluation of the national currency.
3. Fund a set of interventions to strengthen the institutional capacity of the CBY and the local banking sector, including the provision of technical and advisory support.

2. Infrastructure, Transportation, and the Movement of People and Goods

A) The Parties to the Conflict:

1. Open safe, secure, and navigable roads linking the main cities of Yemen, including the Karish-Al Rahidah, Safir-Sanaa, and Ad Dali-Sanaa roads, as well as trade corridors -- all to be accessible around the clock and without imposing any restrictions on the freedom of movement of people or goods. Vehicles carrying goods or people should be able to arrive at their destinations within the reasonable timeframe as dictated by the distance of travel without delay.
2. Facilitate and accelerate trade-related procedures, including the clearance of goods to prevent delays. Coordination mechanisms between parties to the conflict in this regard could be easily established.

B) The International Community:

1. Put sufficient pressure on the parties to the conflict to ensure that all land, sea, and airports, including Sanaa and Rayyan Airports, are kept open for free movement of goods and people. Facilitating the entry of containers into the Al Hudaydah Port is also of great significance to encourage commercial shipping companies to resume Al Hudaydah Port business operations, as this will significantly cut transportation costs, and will consequently reduce up to 40 percent of prices and ease the burden on households.
2. Bring the parties to the conflict to open the roads linking the main cities of Yemen and to remove all barriers and restrictions on the movement of goods and people imposed during the conflict in order to reduce the delivery time and costs of goods.

C) Donor Agencies:

1. Allocate funding commensurate with the magnitude of damage caused to the transportation system, including highways, roads, and bridges to finance the rehabilitation of transportation infrastructure, including airports, seaports, roads, and highways. It is imperative to note that engaging the private sector and the other

concerned actors in setting the priorities for reconstruction projects and programs is of great significance. The impact of the re-opening and rehabilitation of land border crossings, seaports, and airports is vital for all sectors and will improve the delivery of goods and services, including humanitarian aid supplies, and will enhance the performance of all economic sectors.

2. Assist the concerned authorities and motivate them with the tools available to pay the government's late debts to all contractors. This will bring a positive recovery for various vital sectors and save them from collapse as well as addressing an important aspect of the imbalances related to the monetary cycle.

3. Enforcement of Laws and Regulations:

A) The Parties to the Conflict:

1. Commit to fully comply with the pre-2015 economic-related laws and regulations and revoke all procedures and/or regulations introduced during the conflict, including the imposition of fees, taxes, customs, and all sorts of levies.
2. Commit to end the duplication of taxes, fees, customs, and all sorts of levies.
3. Remove all import restrictions imposed during the conflict based on politicized decisions, which restricted options related to the port of entry for imported goods.

B) The International Community:

1. Use efficient tools and mechanisms to ensure the full commitment of the parties to the conflict to comply with the pre-2015 economic-related laws and regulations, and to commit to revoke all procedures and/or regulations pertaining to economic activity introduced during the conflict, including the imposition of fees, taxes, customs, and all sorts of levies, as amendment of the sort is explicitly prohibited by the Constitution, especially since enacting new laws requires the consensus of the Parliament, which is currently among the fragmented institutions.
2. Put sufficient pressure on the parties to the conflict to ensure their commitment to ending the duplication of taxes, fees, customs, and all sorts of levies.

In this regard, the YPSC will submit a document to the parties to the conflict, as well as to the international community, listing all the newly-established procedures and/or regulations introduced during the conflict, including those related to imposing fees, taxes, customs, and other sorts of levies, so as to facilitate a dialogue among the concerned parties in that regard.

In addition, the cluster demands donors and international community to continue its actions and implement its program to build the economy and reduce the impact of the conflict on the private sector and people. This includes supporting the continuity of the private sector cluster to carry out its activities and work with it to:

1. Hold meetings with different parties to present their demands and work with them to develop a clear mechanism and plan of action for its implementation during 2020-2021.

2. Designing programs, projects and studies during 2020-2021 that:
    a. Enhances its technical role and working with different parties to follow up the implementation of its programs and projects.
    b. Structure a mechanism for the flow of data and information about the private sector and through its channels, which is being established by the Cluster Secretariat.
    c. Develop and provide technical studies that contribute to define the needs of the current and future stages in a manner that achieves the efficiency and effectiveness of programs serving the private sector and the economy in general and specifically in the recovery, recovery and reconstruction stages.
3. Improve and develop a draft partnership memo that the cluster has drafted with the World Bank Group in 2019 and present it to the World Bank Group during the second quarter of 2020 and consider it a reference that will be achieved with other international donors during 2020-2021
4. Activate the cluster participation in the meetings and consultations when designing programs and projects for donors in general, taking place at least every two months starting from the second quarter of 2020 and approved by the donors as a framework for the parties to benefit from each other, especially with regard to their interventions in aspects that affect the private sector as a direct stakeholder in providing opinion and advice.