



The Private Sector's Vision for the Reconstruction of Yemen

This paper was based on the results of a survey that the General Federation of Yemeni Chambers of Commerce and Industry conducted with a sample of 30 private sector organizations.

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I. General Background.

Economic recovery, reconstruction and sustainable peace building in Yemen is an urgent economic, political and social necessity stemming from the presence of more than 22 million Yemenis that need different types of humanitarian assistance, including 19 million Yemenis suffering from severe food insecurity¹, which makes Yemen the world's largest emergency, in addition to the continuing cumulative economic losses resulting from the war, which amounted to more than \$136 billion², and the extensive destruction of vital economic and social facilities, particularly the infrastructure necessary for the continuation of economic, social and public life in Yemen.

Economic recovery and reconstruction are also among the major issues that should receive great attention from all parties, sectors and actors inside and outside of Yemen. The private sector, which played a major role in promoting economic resilience and achieving growth during the years 2015-2022, is at the forefront of these components, despite the great challenges it faced due to the increasing conflict and war. Political and security instability represented the most prominent challenge for private sector enterprises and institutions in Yemen, in addition to several challenges, the most prominent of which being the limited access to sustainable sources of finance, as well as the economic uncertainty, which was the

¹ – Ministry of Planning and International Cooperation, Economic and Social developments in Yemen, issue 69, February 2022.

² Taylor Hanna, et al., conflict impact Assessment in Yemen, UNDP, 2021.

result of the division of government institutions and policies governing the private sector's operating environment between the components and parties to the conflict in Yemen³.

The concept of reconstruction refers at restoring and rebuilding the basic infrastructure and social components that were destroyed during the years of conflict and war. It also means continuing the development drive and creating a business and investment environment conducive to developing the economy, creating job opportunities and improving the standard of living and income. This comes in addition to the policies and measures necessary to solve the challenges, difficulties, bottlenecks and deep wounds left by years of conflict and war within the Yemeni society, infrastructure and institutional structures⁴.

This paper aims at reviewing the private sector's vision of reconstruction in terms of the roles that the private sector can play at this stage and the priority sectors that should be focused on. The paper is based on the results of a survey conducted by the General Federation of Yemeni Chambers of Commerce and Industry with various private sector companies in July 2022.

³ – General Federation of Yemeni Chambers of Commerce and Industry, Private Business Environment of Yemen 2022

⁴ - Ministry of Planning and Economic developments (69), source mentioned earlier.

II. The Impact of the Conflict in Yemen on Basic Infrastructure.

In addition to the major humanitarian impact of the conflict in Yemen over the past years, which has made Yemen the worst humanitarian crisis on a global scale⁵, many reports indicate that the main infrastructure has been badly damaged, which has contributed to a decline in overall economic and sector activity. It contributed to the loss of jobs and limited employment opportunities during the war years, which led to an increase in unemployment rate in the economy to about 32% of the total workforce in 2020 from 13.5% in 2014⁶. The impact of the conflict on Yemen's infrastructure can be summarized as follow:

1. Electricity and Energy Sector.

Reports⁷ assessing the impact of the war on Yemen's infrastructure and economy indicate that about 49% of Yemen's energy assets have been damaged, 5% of which have been completely destroyed. In addition, the challenges facing the public electricity sector have increased, the most prominent of which are: Lack of fuel, lack of financial resources available to the sector, lack of proper operation and maintenance, which has led to the total absence of public electricity in most Yemeni cities and governorates, while electricity is available in other cities and governorates intermittently.

⁵ - For further information on the humanitarian situation in Yemen, refer to: United Nations, Office for the Coordination of Humanitarian Affairs in Yemen, www.unocha.org/yemen

⁶ - The Central Bureau of Statistics, estimates based on the results of the 2014 Labor Force Survey

⁷ - World Bank, Ongoing Needs Assessment in Yemen (DNA), Phase III, 2020; p. 103.

2. Transportation Sector.

Highways and bridges linking major cities as well as economic facilities and ports were destroyed. About 29%⁸ of the total internal road network in Yemeni cities has been damaged or destroyed. Many of the country's main and vital roads were closed, and at the air transport level, runways and support facilities in Sana'a, Taiz, Aden and Al-Hodeida airports were severely damaged, leading to the total closure of both Taiz and Al-Hodeida airports. Moreover, Al-Rayyan airport was closed after being used as a military barracks. Sana'a Airport has been closed to commercial flights since August 2016 and remains an airport for UN humanitarian and relief operations – only very recently during the truce starting in April 2022 a few commercial flights per week were reopened connecting Sanaa with Amman. Among about 10 major airports in Yemen, only Aden and Sana'a operate commercial flights to limited terminals, the most important of which are Cairo and Amman airports. The infrastructure and operational assets of Al-Hodeida, Al-Sulif and Al-Mukhaha ports have also been severely damaged as a result of the war, with the damage rate reaching more than 45.5% of the total assets of Yemeni ports. This has greatly affected the operational capacity of Yemeni ports. The current operational capacity of Al-Hodeida Port - the biggest Yemeni port- is estimated to less than 40% of its actual operational capacity before the war. On the other hand, some ports have been completely closed since the beginning of the war.

⁸ *ibid.*, p. 139.

3. Communications and Information Technology Sector.

Telecommunications and its infrastructure services have been severely affected by the war since 2015, with an estimated \$1.4 billion losses due to the destruction of the sector's infrastructure such as telecommunications facilities, towers and terminals, telephone transits, and the prohibition of the use of resources such as Internet cables.⁹ Reports indicate that 25% of the assets in the telecommunications sector in Yemen have been partially damaged or destroyed since the beginning of the crisis and war.¹⁰ The private sector companies, which provide mobile phone services, also suffered financial losses due to the shortage of fuel (oil derivatives) needed to operate electric generators in the main centers and transmission stations in different regions. This is in addition to the big financial losses due to institutional division, incoherent policies and double taxation requested by the governments of Sanaa and Aden.

4. Water and Sanitation Sector.

Since it started in 2015, the war has damaged more than 38% of water and sanitation assets (28% partially damaged, 10% completely destroyed). The damaged assets included wells, water transportation networks, water treatment and sanitary drainage stations, administrative offices, sanitary drainage trucks, warehouses and other assets, which

⁹ Ministry of Communications and Information Technology (Sana'a), Infographic form from the Ministry's website: <http://www.yemen.gov.ye/portal/Portals/4/upload/العدوان%20%20جرائم%20انفوجرافيك>،

¹⁰ World Bank, Ongoing Needs Assessment, source mentioned earlier, p. 84.

contributed to the complete suspension of 28% of the facilities operating in the water and sanitary drainage sector. About 51% of the facilities are partially operational¹¹.

5. Education Sector.

The damage in the public education sector amounted to about 33% of the total educational establishments in Yemen, 3% of which were completely destroyed. As for the educational process, available data¹² indicates that about 11% of educational facilities have stopped completely, while the percentage of operating facilities reaches almost 80%; about 9% is unknown whether they are still engaged in educational activities or not. As for university education, the data indicate that 9% of the total facilities for higher education are suspended or non-functioning and information does not exist for 9% of the facilities.

6. Health Sector.

The conflict has affected the foundations of the health sector in Yemen and its ability to meet the needs to face risks, with about 36% of the total health facilities in Yemen being damaged, 2% of which were completely destroyed. This has completely shut down about 17% of the total health facilities, 22% of which are hospitals. 12% of health centers¹³ have come to a halt in many public health facilities, and the private sector has borne the brunt of

¹¹ Ibid., p. 141.

¹² Ibid., p. 24 – 25.

¹³ Ibid., p. 64 – 65.

providing health services, with some estimates indicating that the private sector provides 80%¹⁴ of the health services to the population.

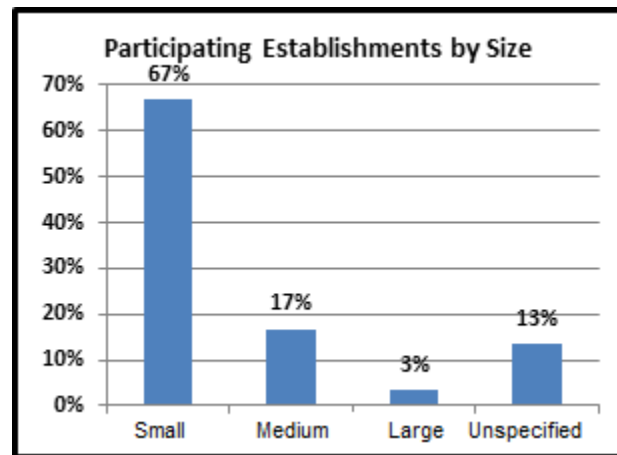
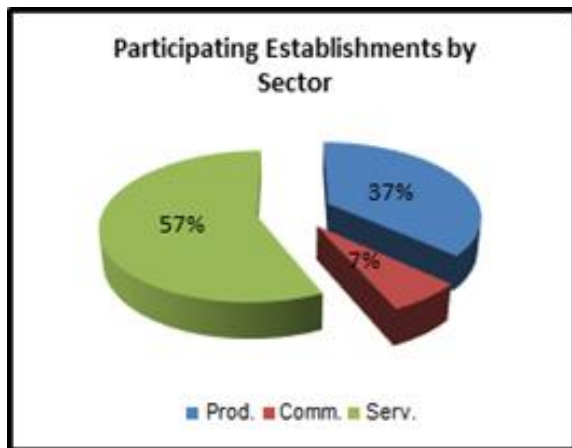
III. Private Sector and Reconstruction.

The private sector is an important partner of the government in various macroeconomic and sectoral aspects, especially during the years of conflict and war, as the private sector was the main contributor to growth and employment in light of the government's apparent inability not only to absorb the new workforce, but also to maintain the existing employees. The private sector is the main supplier of the consumer and investment needs required by the economy over the past years, and in the coming period the private sector will certainly be a key and active partner of the government and donors in the efforts to recover and rebuild the infrastructure necessary to operate various economic sectors and stimulate sustainable economic growth.

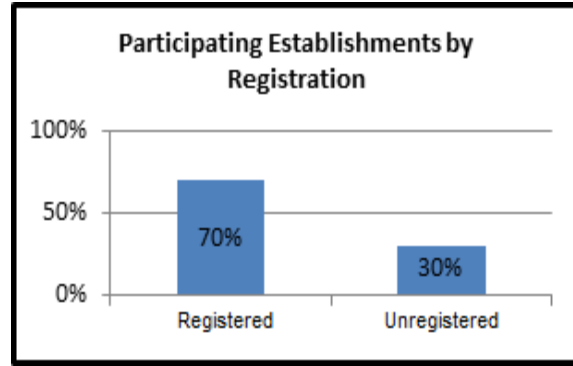
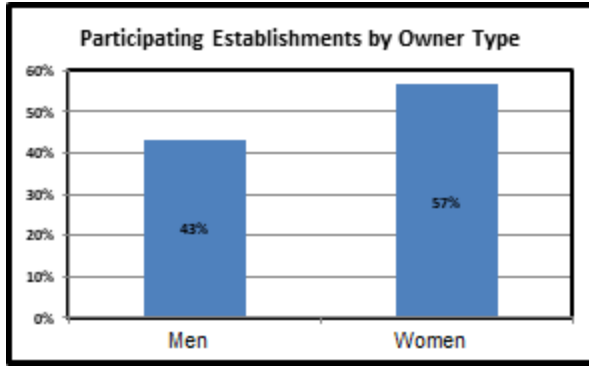
With a view to getting acquainted with the vision of the private sector for reconstruction in Yemen, the General Federation of Yemeni Chambers of Commerce and Industry distributed a special survey to the members of chambers of commerce and specialized committees within the Federation; the Federation's Research and Studies Center received responses from 30 private companies operating in various economic sectors.

¹⁴ - Estimates by the Director General of the General Federation of Chambers of Commerce and Industry based on reports submitted to the Federation.

Some basic information on the sample: about 57% work in the non-commercial services sector, 37%, in the production sector, 7% operating in the commercial sector. In terms of the size of the establishments participating in the survey, the percentage of small establishments was about 67%, 17% medium-sized establishments, and about 3% large establishments. Meanwhile, 13% of the establishments did not specify their number of workers and the level of their activity.



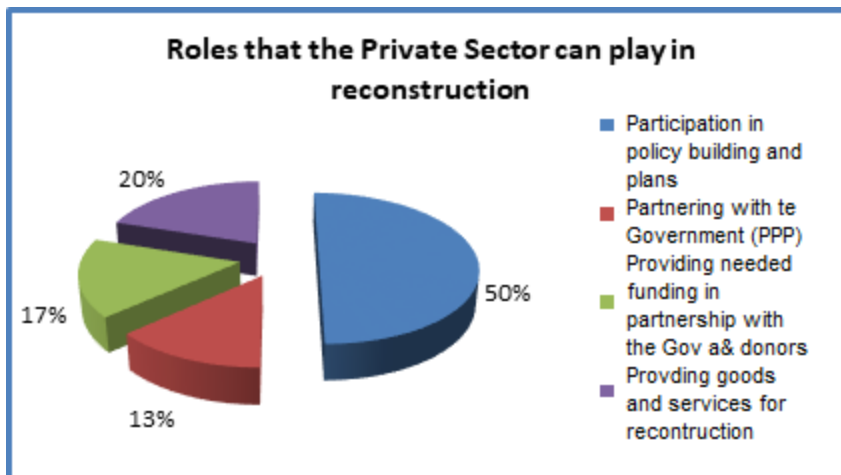
On the other hand, it is worth mentioning that the percentage of establishments headed by women participated effectively in comparison to those headed by men, as the percentage of women lead establishments reached about 57% compared to 43% for establishments owned or headed by men. The majority of enterprises participating in the survey were in the formal sector, as they registered their activities and work with one of the business organizations such as the Chambers of Commerce or the Ministry of Industry and Commerce. Meanwhile, the percentage of establishments participating in the survey and not registered (working in the informal sector) was only about 30%.



The survey's results were as follows:

1. Roles that the Private Sector can Play in Reconstruction.

The years prior to 2015 have seen considerable efforts by the government and the private sector to strengthen their economic partnership, both in the areas of legislation and laws, public policies and strategic plans, and development projects. During the coming stage (reconstruction stage), the private sector sees that the aspect of public policies and strategic



plans related to reconstruction is the most important priority area for private sector organizations and institutions to partner with the government. 50%

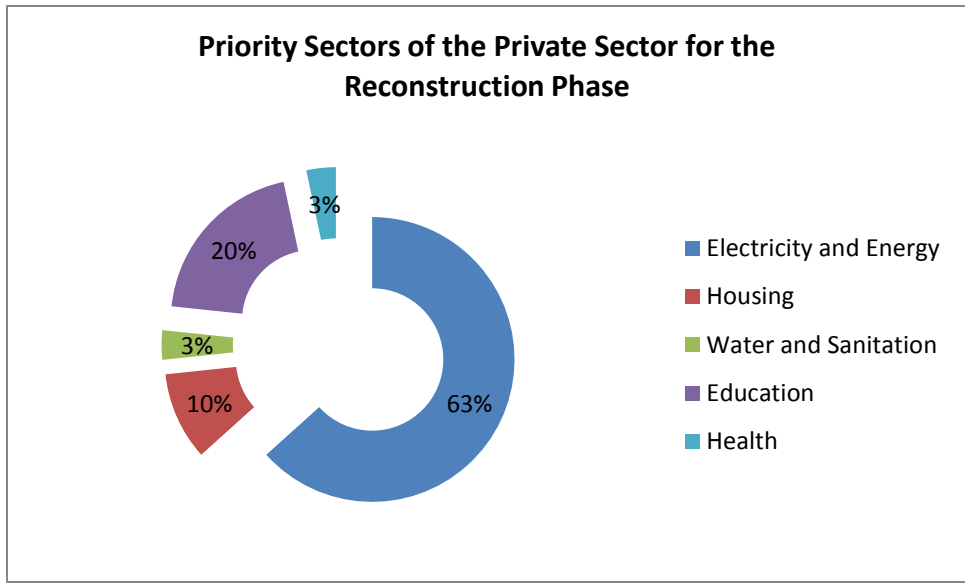
of private sector organizations see the necessity of private sector participation in building and drawing up public policies and plans that are priorities in reconstruction efforts as the private sector and its various institutions are the most knowledgeable regarding the needs of employment, production and economic growth in the coming stage.

20% of the surveyed private sector enterprises believe that the private sector can effectively contribute to providing the goods and services necessary for reconstruction, and consequently it is important to set up the appropriate conditions for the private sector to fulfill the function. 17% of the private sector enterprises believe that the private sector can contribute to providing part of the required finance for the reconstruction process whether through the official banking system or other means such as the establishment of joint-stock companies, investment in government bonds, instruments and other means of financing. As for the issue of partnership between the government and the private sector in establishing projects and infrastructure (PPP), this priority came in the last place at a rate of only 13%, mainly because there is no valid law regulating the partnership between the two parties. In addition, private sector institutions have limited confidence in partnering with government.

2. Priority Sectors of the Private Sector for the Reconstruction Phase.

Until 2015, Yemen's development needs were numerous, as Yemen is considered as one of the least developed countries at the international level. During the period 2015-2022, it is certain that development needs have increased both in terms of quantity and quality. The conflict and the war have destroyed and disrupted a large part of the infrastructure and institutions operating in economic and social fields. When it comes to private sector priorities, 63% of the surveyed enterprises believe that rebuilding an efficient electricity and energy sector is the first issue to be addressed. The extent of the impact of this sector on

the rest of the sectors was revealed, as the general power outage and the absence of oil derivatives led to the beginning of the last war (2015). One of the main consequences of the difficulty encountered by the sector was the strong decline in the gross domestic product (GDP) -about 35%.



As for the other priority sectors that should receive resources and attention in the reconstruction stage, the

education sector came second, with 20% of the total private establishments participating in the survey. This is due to the importance of the education sector in the economy because it is considered one of the main sources of economic and social development. 10% of the surveyed companies indicated the housing sector as a first priority, as this sector is one of the leading sectors for different economic activities and enjoys many economic links and interrelationships with the rest of the economy. Health, water and sanitary drainage sectors came fourth in terms of priority of the sectors that should receive reconstruction in the coming stage, at 3% each.

It is noteworthy that other sectors such as communications, information technology, roads, ports and airports were not ranked first; the reason might be that the services of those sectors are still meeting the needs of the private sector one way or another. In addition, a large percentage of the establishments that participated in the survey are small (67%) and this can have influenced the final result as they sell in domestic market.

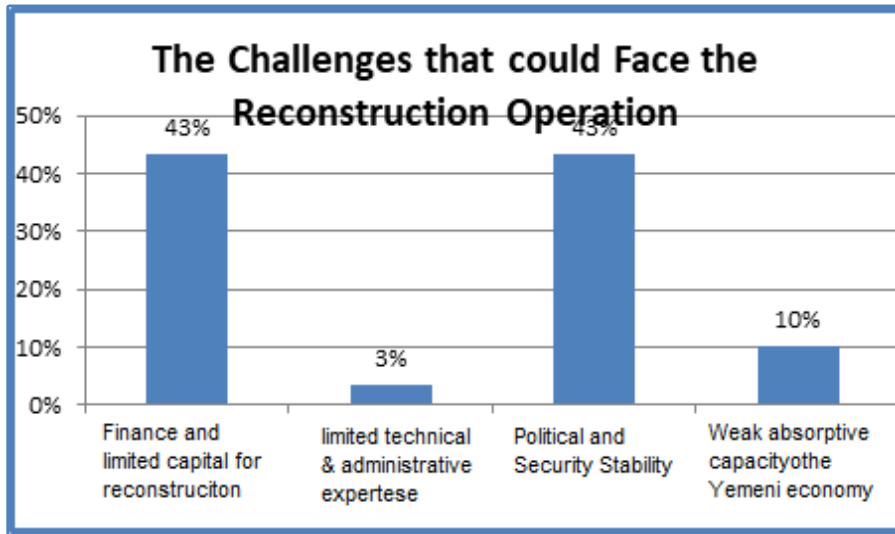
The private sector also sees that there are other sectors outside the framework of infrastructure and basic infrastructures that can be given priority in the reconstruction stage because of their effect on the whole economic activity, such as the judiciary system, vocational training and paying compensations to the victims of conflict and war.

3. The Challenges that could Face the Reconstruction Operation

A recent study by the General Federation of Yemeni Chambers of Commerce and Industry has identified the most important challenges facing Yemen's business environment today ¹⁵. As for the challenges that can face the reconstruction phase, political stability and security and the limited capital, ranked high with the survey's participants from private sector institutions and enterprises, with a rate of 43% each.

¹⁵ – General Federation of Yemeni Chambers of Commerce and Industry, Private Business Environment of Yemen 2022.

It is noteworthy that the political stability and security challenges are numerous and varied,



but the most prominent are the challenges of security disorder, the spread of weapons and attacks on private institutions and factories, in addition to the rise in

insurance and shipping costs to Yemeni ports as a failed and unstable state, and this is reflected in the rise in production costs¹⁶. Finance challenges are concentrated on the limited financial institutions and resources available in the economy and the reliance of over 60% of private enterprises on limited self-financing sources, in addition to the continuous deterioration in the value of the local currency and high inflation rates compared to interest rates in the market. This results in the reluctance of many people to deposit their savings with the official banking system and the difficulty of meeting the credit needs of private establishments.

On the other hand, 10% of private sector enterprises believe that the weak absorptive capacity of the Yemeni economy¹⁷, which was prevalent during the years before the war,

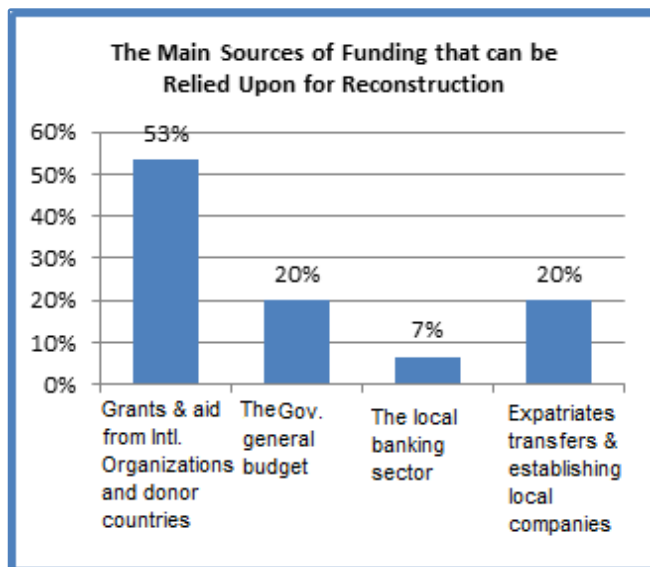
¹⁶ – Ministry of Planning and International Cooperation, Economic and Social developments in Yemen paper, issue 58, February 2021.

¹⁷ - For further information on the poor capacity of the Yemeni economy, refer to: Mansoor Ali Al-Bashiri, Foreign Aid and its role in the Development process in Yemen, Economic Observatory for Studies and Consultancy, Sana'a 2016.

represented in the inability of governmental authorities and institutions to absorb donor pledges and funds and transform them into productive and service projects and basic infrastructure, will continue during the reconstruction phase, as they are linked to institutional factors and structural challenges in the Yemeni economy. 3% of private sector enterprises believe that the limited technical and administrative capabilities and expertise available in the Yemeni labor market will represent one of the main constraints facing the reconstruction of Yemen during the coming period and will limit the role of the private sector in the reconstruction of Yemen.

4. The Main Sources of Funding that can be Relied Upon for Reconstruction.

The provision of long-term investment finance represents one of the most important, if not the biggest challenge that the reconstruction process in Yemen and other countries in similar circumstances can face. Therefore, it is the availability or absence of adequate



funding that will determine the success or failure of the efforts to rebuild what has been destroyed by the war in the past years. The problem of financing and limited access to official and institutional funding sources have been and continue to be the main challenge for private

enterprises in Yemen over the past years, with direct and indirect negative effects on private

enterprises. In order to overcome this challenge in the coming stage, 53% of private sector establishments and institutions see the necessity of relying on external finance resources (donor support) whether in the form of loans or grants in order to fill the gap of local finance and ensure the progress of reconstruction operations. Many establishments stress on the importance that the so-called Arab alliance, especially Saudi Arabia and the United Arab Emirates, should bear the biggest part of these costs because they are largely responsible for the destruction and damages that befell the main infrastructure and economic facilities during the war years.

20% of private businesses believe it is necessary to rely on official local sources, represented in the available financial resources within the state public budget, and the necessary mobilization of these resources efficiently and rationally allocate them to government expenditure fields, including reconstruction spending.

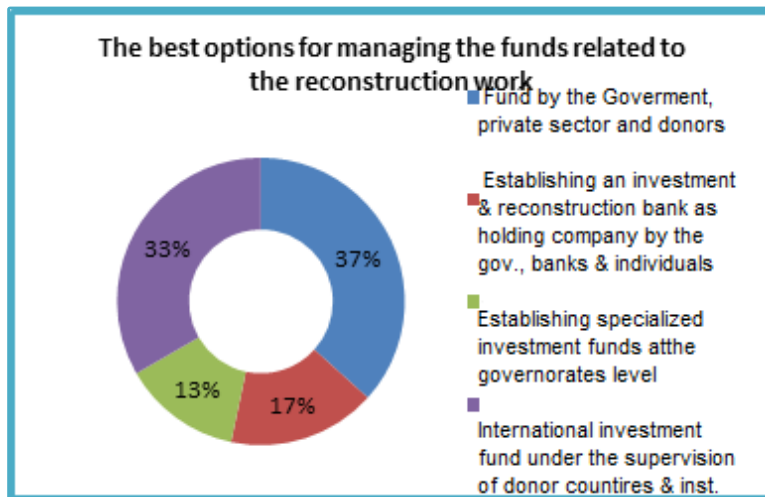
On the other hand, due to the importance of remittances to Yemeni expatriates abroad, 20% of private business establishments and institutions see the importance of absorbing these remittances appropriately and making them one of the main sources for financing reconstruction operations, programs and projects, and this can be achieved through various means including the establishment of joint stock companies in which Yemeni expatriates abroad participate. It is also possible to mobilize the savings and remittances of Yemeni

expatriates abroad through the use of Islamic instruments as a new financing mechanism¹⁸.

As for the option of using the available funds in the commercial banking system in reconstruction operations, it came in the last position in terms of financing options from the private sector's point of view at a rate of only 7% due to the private sector's knowledge of the limited capabilities of the commercial banking system in this field.

5. The Best Options for Managing Funds Related to Reconstruction.

In addition to the availability of sufficient funding to invest in the reconstruction of what the war destroyed during the last years, the issue of financial management of these funds is an important issue that is related mainly to the extent of the ability of the various parties to manage these funds, the level of technical and administrative expertise, and the financial



and accounting systems they possess.

37% of the private sector enterprises believe that the reconstruction funds should be run by a reconstruction partnership, including the

government, the private sector and donors.

¹⁸ - For more information on financing options for infrastructure and reconstruction, refer to: Mansur Ali Al-Beshiri, Infrastructure and its role in Investment Promotion, Working Paper presented to the Investment Conference in Yemen 2022.

On the other hand, 33% of the surveyed companies believe that donors should be allowed to manage the reconstruction funds, especially as they believe that most of the funding will come from the donors themselves, which increases the confidence of donors in the government and ensures that corruption will not put its hands on reconstruction funds.

Meanwhile, 17% of private businesses believe that the best way to manage the reconstruction funds is to mobilize local financial resources through the establishment of a national investment bank or joint-stock investment companies that work to mobilize financial resources from the government, the private sector and citizens, and to manage and allocate these funds to address special priorities. Last but not least, the option of managing the reconstruction funds through specialized investment funds at the governorates' level got 13% of the survey participants' opinion from the private sector.

IV. The Requirements for the Private Sector's Participation during the Reconstruction Phase.

In the previous part of this study, many mechanisms were identified for the private sector participation in the reconstruction. However, the implementation of these mechanisms requires good governance mechanisms, clear regulatory frameworks and incentives to enter into genuine partnerships with the Government. The most important requirements are:

1. Provision of an Appropriate Legal and Regulatory Environment.

The success of the private sector in engaging with the government and other development partners in Yemen in the reconstruction phase depends on the establishment of an appropriate legal and regulatory environment. It is important to enact the necessary laws to overcome the existing bureaucracy and deal with the new mechanisms of reconstruction, especially those related to building adequate and sustainable infrastructure, such as specific and emerging projects like renewable electric energy (solar-wind) projects, in a way that allows the private sector to invest in the energy sector.

2. Bridging Governance and Capacity Gaps that Hamper Private Sector Involvement

This can be achieved by establishing independent entities that coordinate with the private sector and enhancing investor confidence in cooperation with development funding institutions and global partners. These entities can take many forms like public-private partnership¹⁹.

3. Building Peace and Promoting Security and Political Stability to attract Investments.

Enhancing the attractiveness of the business environment and expanding partnerships with the domestic and foreign private sector requires, first and foremost, establishing confidence in the Yemeni Government and its ability to achieve mutual benefits for domestic and foreign investors, eliminating political and security concerns. It will also work to reduce

19 - Ali Ubaid Hussein and others, opened up prospects for private sector participation in financing infrastructure. <https://www.mckinsey.com/industries/private-equity-and-principal-investors/our-insights/unlocking-private-sector-financing-in-emerging-markets-infrastructure/ar->

tensions between Yemen and its regional periphery and agree to build a political and economic vision in which common interests will prevail over current differences.

4. Developing Governmental Administrative and Institutional Infrastructure.

The administrative and institutional dimension is one of the important factors to create a suitable and attractive business environment that allows the private sector to expand its partnerships with the government; the general administrative environment is closely linked to the investors' needs of services necessary for their investments and their duties toward the state. This requires the implementation of administrative and institutional reforms that will have a significant impact on the improvement of the business environment, including:

- Reforming government ministries, institutions and bodies to make their services compatible with the new economic reality that requires quick decision, rapid procedures and a simplification of administrative requirements. In addition, the procedures and systems for providing public service and the conditions for obtaining it, are clearly and easily described in a manner that contributes to providing service with speed, cost-effectiveness and better quality.
- To clearly define the functions and specialties of the bodies concerned with the activity of the private sector and the business environment, and to find practical remedies for multiple devices and overlapping powers.
- Create a clear investment map covering the sectors of the national economy and the geographical area of the country.

5. Preparing the Private Sector to Work in Reconstruction.

In view of the great damage suffered by the private sector enterprises during the past years of conflict and war, it is important to work out and implement an urgent plan of action aimed at preparing the private sector to participate effectively in reconstruction efforts. This plan could involve both private sector organizations, such as the General Federation of Chambers of Commerce, the Government and donors, and could include a range of areas of action, most notably:

- Rehabilitation of the national contracting sector as the lever on which the reconstruction phase in Yemen will depend in the coming periods. This process may include the classification of contractors, training, capacity-building, and the provision of the necessary recovery funding for underdeveloped contractors and business development for those still in business.
- Disbursing the previous financial indebtedness of Yemeni contractors to the Yemeni Government as a result of implementing government projects in previous periods, in a way that enables the contractors sector to overcome the state of stumbling it is currently experiencing and get out of the cycle of bankruptcy and closing companies. This can be achieved by allocating part of the oil and gas resources or seeking external funds to repay them (Grants, loans, compensation).
- Developing mechanisms to address the problems of stumbling-off projects in progress that have been interrupted by the war, by assessing the level and cost of

implementation, receiving the completed phases from the contractors, and then entering into new contracts to implement the remaining phases.

- It is very important that the Government taxation authorities (taxes, zakat, ...) reconsider their operations taking into account the cases of faltering and the volume of debt to the sector at government bodies, and finding appropriate mechanisms to enable the sector to obtain the licenses necessary for the continuation of business in the sector.
- Supporting national banks and expanding their financing options in order to ensure that they benefit from foreign financing flows, the effective banking system is a crucial factor in strengthening the role of the private sector in Yemen.²⁰
- The Government and key actors (both domestic and external) should support the full return of a viable financial sector – including the consolidation of the Central Bank of Yemen and enabling it to perform its monetary functions.
- Make the necessary reforms in the banking regulations and ensure that there is a suitable platform for foreign investors to set up banks in the country, as well as for receiving the flow of remittances. In this regard, an investment guarantee mechanism could be established to attract remittances from Yemeni expatriates to contribute to economic recovery.

20 – Leaders of Development Forum, Post-conflict Private sector participation in Yemen, Policy Brief, August 2018.
<https://sanaacenter.org/ar/publications-all/main-publications-ar/6966>

- Strengthen and develop microfinance institutions and make them a key target for all stakeholders to push for greater financial inclusion throughout Yemen. Banks and microfinance companies should be enabled to provide individual financial services and cash management services to small businesses.
- Strengthen mobile banking services in Yemen to expand access to low-income borrowers.
- Rehabilitate the supply sector and solve the challenges suppliers face, especially those related to opening documentary credits and providing the necessary guarantees to the partners in the different export countries.
- Work to restore the activities of consulting and engineering offices and develop them to cope with the new market variables on the one hand, and qualify these offices to achieve the international standards in this field and enhance their competitiveness on the other.