



الاتحاد العام للغرف التجارية الصناعية اليمنية  
Federation of Yemen Chambers of Commerce and Industry

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# The Role of the Contracting Sector in Reconstruction and Recovery

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## Introduction

The contracting and construction sector is a critical component of modern economies, serving as a fundamental pillar for economic development. This sector acts as a primary driver of economic growth by increasing investment spending and stimulating other related sectors. Its contributions are pivotal to the development of essential infrastructure, which supports the advancement of various economic and social sectors. Furthermore, it plays a significant role in attracting and stimulating both domestic and foreign investments<sup>1</sup>, while invigorating local economies through the purchasing materials and services from local suppliers.

The sector's importance extends beyond its economic contributions, as it also plays a vital social role by creating direct and indirect employment opportunities for millions of individuals across a broad spectrum of specializations and professional competencies in the society. This contribution helps reduce unemployment rates, enhances living standards, and contributes to improved social well-being by providing adequate housing and improved public service facilities, such as educational institutions and healthcare services, thereby fostering social cohesion.

Considering the abnormal circumstances Yemen is currently experiencing - including the destruction of critical infrastructure due to war and conflict - the contracting sector, despite the challenges it faces, is anticipated to play a pivotal role in the forthcoming recovery and reconstruction efforts. This sector is expected to be instrumental in rehabilitating the war-torn cities and damaged infrastructure, revitalizing economic and social institutions, and contributing to the restoration of productive communities. Consequently, the contracting sector is expected to make rapid growth in the coming years, positioning it as a key sector for investment and a crucial factor in reinforcing political and social stability.

This paper seeks to examine the status of the contracting sector in Yemen amidst the adverse conditions caused by the ongoing war and conflict.

It will assess the challenges and obstacles that have constrained the sector's capacity and contributed to its declining performance. Moreover, the paper will provide practical recommendations aimed at enhancing the sector's performance and restoring its economic, social, and humanitarian roles in the near future.

The methodology employed in this paper combines a desk-based analysis of relevant studies, reports, and statistical data, along with a participatory approach involving beneficiaries and stakeholders by circulating a draft of this paper to all Yemeni chambers of commerce and industry, as well as to members of the specialized committees within the General Federation of Yemeni Chambers of Commerce and Industry, to get their feedback.

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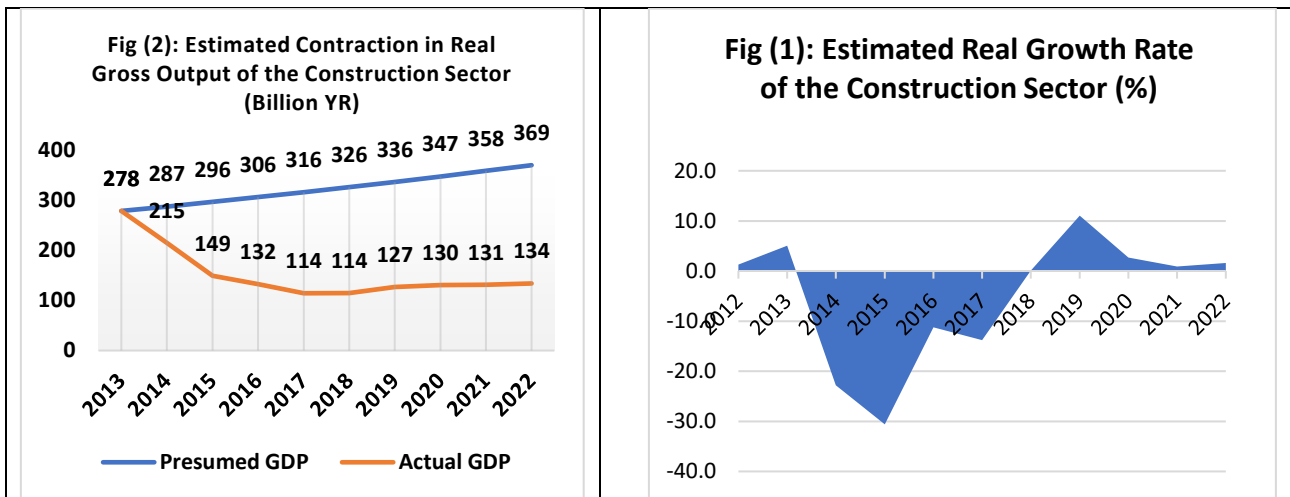
<sup>1</sup> Al-Osta, Tawfiq Hassan. Analytical study of the Contracting sector in Yemen: Current situation and development requirements. Ministry of Public Works and Roads.

# 1. Performance Assessment of the Contracting Sector

Since the beginning of 2015, the Yemeni economy, particularly the contracting sector, has entered a state of inflationary stagflation as a result of the war and blockade that Yemen experienced over the past decade. This situation has been exacerbated by the absence of a functioning government and a significant decline in public resources, resulting in a complete halt of public investment programs and development initiatives. Moreover, a substantial portion of domestic capital has fled abroad in search of safer investment opportunities, leading to alarming declines in macroeconomic indicators, including those specific to the contracting sector. The performance of the contracting sector during the past period can be analyzed through the performance of relevant economic sectors, such as construction and investment as follows:

## 1-1. Performance Indicators of the Construction Sector

The abnormal circumstances that Yemen has gone through since 2015 and its aftermath have contributed to the emergence of numerous political, economic, and security fluctuations that have adversely affected the overall macroeconomic performance and sectoral performance of the various economic sectors including the construction sector. Available estimates<sup>2</sup> (Figure 1) indicate that the construction sector experienced significant annual contraction during the period from 2014 to 2017, averaged approximately -20%. This decline was primarily due to the cessation of many production activities within the sector, attributed to inadequate energy supplies (electricity and oil derivatives) and their substantial price increases. Additionally, the sector faced challenges in procuring raw



materials and intermediate goods necessary for operation and production.

As conditions related to production activities improved and many private companies adapted their own strategies to align with wartime circumstances, several governmental institutions, such as the Social Development Fund and the Public Works Project, resumed investment activities. Furthermore, international donor organizations increased their involvement, and the value of remittances from expatriates rose, with a portion being reinvested in the construction sector. Consequently, the

<sup>2</sup> -Estimates of the Central Statistical Organization. (2015–2022). National accounts data.

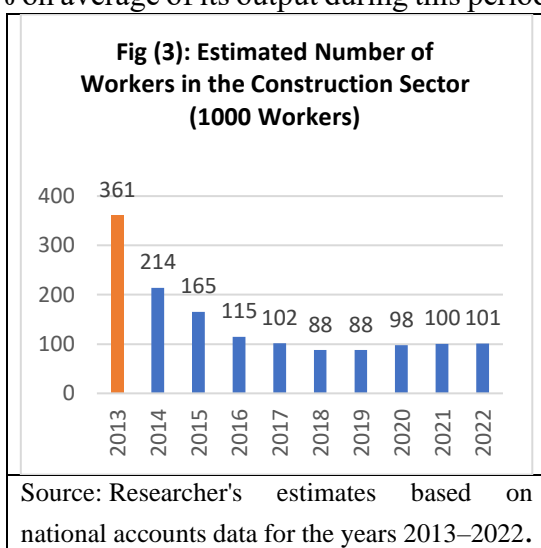
construction sector has begun to experience renewed growth, albeit at a limited scale, with an average annual real growth rate of about 3.3% during the period from 2018 to 2022.

Based on the average real growth rate of the construction sector in the years prior to 2014, the cumulative contraction in the value of the real GDP (Fig 2) for the construction sector in 2022 is estimated to be 48% compared to its size in 2013. The cumulative economic losses in the sector's output during the years 2014 to 2022 are estimated at approximately 1.7 trillion Yemeni Rials, equivalent to 3.6 billion US dollars<sup>3</sup> according to the average exchange rate in the parallel market.

Consequently, the rate of operation and production in the construction sector during the period 2014-2022 amounted to only about 66% of the sector's potential operating capacity under pre-war conditions. This indicates that the sector has lost about 34% on average of its output during this period due to the war and conflict and resulting challenges and difficulties, in addition to various impacts of recently adopted public policies that are related to the construction sector.

As a result of the decline in the real GDP value of the construction sector during the period from 2015 to 2022, there has been a decrease in the employment rate within the sector, including the layoff of a portion of the workforce that was employed prior to the war. The number of workers in the construction sector is estimated to have decreased from approximately<sup>4</sup> 361,000 in 2013

to about 101,000 in 2022<sup>5</sup>. This means that the construction sector has eliminated a total of 260,000 job opportunities during the years 2014 to 2022, in addition to around 1.3 million potential job opportunities that could have been created during this period had conditions been normal and no war and conflict took place. This situation has contributed to an increase in the overall unemployment rate in the economy (taking into account the decrease in employment rates in other economic sectors) to approximately 32% of the total labor force in 2020, compared to around 13.5% in 2014<sup>6</sup>. It is noteworthy that unemployment rates among youth and women remain above the general average, as young people and women represent the majority of those laid off from the workforce during the war. Additionally, many new entrants (youth) to the



**The Public Works Project assisted Yemeni contractors in resuming their activities in implementing various projects through the Emergency Response Project, a \$120 million project funded by the World Bank, which executed initiatives in areas such as road construction and paving, school restoration, rainwater harvesting tank construction, and sanitation services, among others. This project has been instrumental in preventing the collapse and disappearance of the contracting sector due to the declined performance of the Yemeni economy in the past years.**

3 -Researcher's calculations based on estimates Central Statistical Organization. (2015–2022). National accounts data. , The construction sector was assumed to achieve annual growth equal to the average annual growth achieved in the years 2012-2013.

4. Central Statistical Organization & International Labor Organization. (2013–2014). Labor force survey results..

5 Researcher's estimates based on estimates of the GDP of the construction sector during the period.

6 -Estimates based on Central Statistical Organization & International Labor Organization. (2013–2014). Labor force survey results.

labor market have failed to obtain suitable employment opportunities, and thus remained present among the unemployed.

Although many factors and variables contributed to declining the performance of the construction sector and other related economic sectors, the most significant factors include the following<sup>7</sup>:

- The ongoing state of conflict and war, which has weakened the incentives for both public and private investment.
- The significant increase in the prices of construction materials, due to doubled transportation costs and other unlawful surcharges imposed on these materials by all parties.
- The depreciation of the local currency and the division of financial and monetary policies within the country.
- The rise in real estate prices in Yemeni cities during the past period due to land speculation.
- The government's considerable indebtedness to the Yemeni contractors for the implementation of governmental projects in previous periods.

It is noteworthy that the decline in employment rates in the economy and the decrease in the value of real GDP have contributed to a reduction in average per capita income, leading to the slide of more people below the poverty line and thus exacerbating the current humanitarian crisis. The pace of poverty rate in society increased significantly during the period 2014-2020, to reach 76.9% of the population below the national poverty line in 2016, then 77.9% in 2017, and is expected to reach 80% of the population in 2020<sup>8</sup>.

## **1-2. Investment Performance Indicators**

The conditions of war and conflict, along with the instability of political, economic, and security indicators in Yemen from 2014 to 2022, have contributed to a decline in overall investment indicators in the country. Some estimates<sup>9</sup> indicate a significant reduction in the value of real total investments.

Figure 4 illustrates the evolution of total investment in Yemen in US dollars to avoid recurrent fluctuations in the exchange rate of the local currency against foreign currencies during the war. The figure shows that total investment value decreased from \$6.2 billion, accounting for 16.9% of GDP in 2014, to approximately \$2.9 billion in 2015, representing a decline of about -47%. The relative significance of total investment to GDP during that year was approximately 12.6%. The investment sector continued to decline, reaching its lowest point in 2018, with a value of only \$1.8 billion, which constituted 16.1% of GDP.

As many economic sectors have adapted to the conditions and changes brought about by the war, alongside the increasing investment role of externally funded projects and funds, such as the Social Development Fund and the Public Works Project, particularly since the beginning of 2017<sup>10</sup>, as well as the rise in the value of remittances sent by Yemeni expatriates during the same period and directing part of them to investment, especially in the real estate sector, the total investment value has returned to positive growth starting in 2019, with an average annual growth rate of approximately 9.7% from

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<sup>7</sup> Rajeh, M. (2023). The collapse of the Contracting sector in Yemen. Yemen Future. <https://yemenfuture.net/economy/12572>

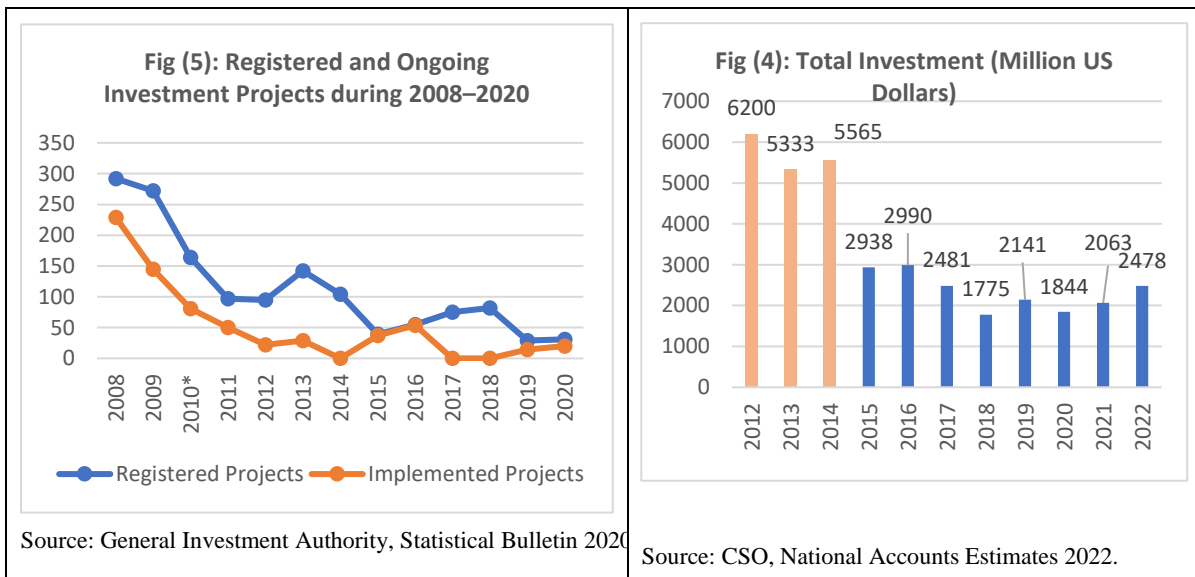
<sup>8</sup> -Ministry of Planning and International Cooperation, UNICEF, Annual Economic Report 2020.

<sup>9</sup> Previous source.

<sup>10</sup> Public Works Project. Saving the contracting sector in Yemen from collapse through the emergency response project: Saving the construction sector in Yemen from collapse!! (pwpymen.org).

2019 to 2022. By 2022, the total investment value reached about \$2.5 billion, which remains more than 50% lower than its value in the years prior to the war. This clearly indicates a decline in this sector, thereby significantly reducing job opportunities in the contracting sector and increasing the hardships faced by Yemeni contractors during this period.

It is worth mentioning that most of the decline in total investment value came as a result of a decline in private investment. According to data from the General Investment Authority<sup>11</sup>, private investments have experienced a rapid decline during the years of conflict and war (Figure 5). The number of registered investments in the General Investment Authority and its branches across all governorates fell from approximately 300 investment projects in 2008 to only about 31 projects in 2020. Additionally, the number of investments that reached the implementation stage dropped from 229 projects in 2008 to around 20 investment projects in 2020, noting that private investment projects registered in the authority and its branches numbered in the hundreds prior to 2014. Furthermore, the ratio of implemented or under implementation projects to the total registered projects decreased from 78% in 2008 to approximately 65% in 2020.



The aforementioned indicators clearly reflect a significant deterioration in the performance of the private and public investment sector in Yemen during the past period, mainly due to the limited government financial resources needed to implement public investments across all economic, social and infrastructure sectors. Additionally, a significant portion of the private sector remains apprehensive about investing amidst the ongoing war and conflict, which has adversely impacted the contracting sector, driving it to the brink of collapse.

<sup>11</sup>General Authority for Investment. (2006–2020). Statistical data..

## 2. Challenges Facing the Contracting Sector

The contracting sector in Yemen faces multiple and interrelated challenges, as it operates in a difficult and uninviting economic and investment environment. These challenges and difficulties have further intensified due to ongoing conflict and war, inflicting significant damage on the sector that is directly shown through the destruction of properties, equipment, and facilities belonging to numerous Yemeni contractors, as well as through the seizure and delay of the reimbursement of their outstanding debts by the government agencies and institutions. Consequently, many contractors have experienced partial or complete halts in their businesses and projects, leading to layoffs and failure to absorb new labor. Additionally, there has been a reduction in the supply of goods and services provided by this sector, particularly essential infrastructure services necessary for the production operations of other sectors of the national economy, along with rising production costs. The main challenges can be delineated as follows:

### 2-1. Structural Challenges

- The absence of strategies, plans, or government policies aimed at the development and enhancement of the contracting sector, including the necessary objectives and institutional frameworks to support the sector and ensure its competitiveness in the local market.
- The weakness of the consulting sector in Yemen and the limited technical and supervisory capacities required to keep pace with global changes in this field, due to severe shortage of qualified and experienced technicians<sup>12</sup>.
- Poor coordination and communication with relevant governmental, private, and local or international organizations associated with the sector.
- Impact of war and instability, which resulted in many contracting companies halting work and incurring large economic losses.

### 2-2. Challenges Related to Supporting Institutions and Infrastructure

- Limited performance of organizations and engineering entities that support the sector, such as the Engineers Syndicate, the Yemeni Architects Association, Federation of Consulting and Engineering Offices, and the Contractors Union.
- Inadequate legislation and institutional frameworks relevant to the sector's operations or those related to the implementation of infrastructure projects, which fail to meet the requirements for sustainable development and the needs of recovery and reconstruction.
- Bureaucratic delays, lengthy procedures, and the complexity of processes in most governmental institutions related to private sector activities, necessitating considerable time and effort, as well as additional informal payments to obtain the required licenses and conduct business.

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<sup>12</sup> Al-Osta, Tawfiq Hassa, Reference previously mentioned.



## 2-3. Financing Challenges

- The ongoing depreciation of the local currency, which has reached unprecedented levels during the years of war, along with varying exchange rates across different governorates have increased costs for materials and equipment needed for the sector's operations, coupled with a decline in demand for the services provided by the sector due to rising prices.
- Limited financing institutions and sources available to contractors, with over 95% of private companies relying on self-financing. This is attributed to the small size of the banking sector and the limited financing it provides to the private sector, along with stringent lending conditions and collateral requirements imposed by financing institutions that often do not accept movable guarantees<sup>13</sup>.
- The substantial debts owed by the government agencies and institutions to the Yemeni contractors, compounded by the decline in the real value of these debts due to recurrent depreciation of the local currency. Furthermore, financing institutions continue to charge interest on the overdrafts used by contractors to cover the costs of government projects, while these government entities have failed to meet their financial obligations to the contractors<sup>14</sup>.

## 3. Future Opportunities for the Construction Sector

Despite the formidable challenges and obstacles currently confronting Yemen's contracting sector, resulting in direct negative impacts such as destruction of contractors' properties, mounting financial losses, seizure of their financial resources by various government entities, and issues with financing institutions, as well as broader consequences like contraction in sector output, deteriorating business conditions and job losses; there are numerous future opportunities that, if harnessed effectively, could catalyze a transformative shift in the sector during the recovery and reconstruction phase. These opportunities can be outlined as follows:

### 3-1. Investment in Rebuilding Damaged Infrastructure

Reports<sup>15</sup> assessing the impact of the war on Yemen's infrastructure and economy indicate extensive damage to essential infrastructure sectors, estimated at tens of billions of dollars. Approximately 49% of the energy sector's assets have been damaged, with 5% experiencing total destruction. Additionally, around 29% of the internal road network in Yemeni cities has sustained damage or destruction. Many vital roads have been closed. In terms of air transportation, the airports in Sana'a, Taiz, Aden, and Hodeidah have suffered extensive damage to runways and support facilities. The operational infrastructure of the ports of Hodeidah, Al-Salif, and Al-Makha have also been badly damaged during the war, with over 45.5% of Yemen's total port assets damaged.

In the telecommunications and information technology sector, losses are estimated at approximately \$1.4 billion due to the destruction of infrastructure, including facilities, towers, and communication stations. In the water and sanitation sector, damage exceeds 38% of private assets (28% partially

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<sup>13</sup> -World Bank. (2023). Study on the private sector in Yemen.

<sup>14</sup> Yemeni Federation of Chambers of Commerce and Industry. Matrix of problems and difficulties facing the private sector..

<sup>15</sup> .- World Bank. (2020). Continuous needs assessment in Yemen (DNA), phase three

damaged and 10% completely destroyed). The education sector has incurred damage of around 33% of total educational facilities, while approximately 36% of health facilities have been damaged, with 2% incurred complete destruction, resulting in about 17% of health facilities being entirely non-operational.

Accordingly, the reconstruction of infrastructure represents a significant future opportunity for the contracting sector, necessitating a focused effort on peacebuilding and enhancing security and political stability to encourage investment in reconstruction efforts. It is crucial to emphasize the importance of the private sector's partnership with the government entities and donors in the reconstruction efforts, whether through participation in drawing public policies and strategic plans related to reconstruction or by providing the necessary goods, production inputs, and services<sup>16</sup>.

### **3-2. Strengthening Partnerships with Relevant Entities**

Given the importance of the contracting sector in the upcoming phase, it is vital to establish partnerships between the sector and relevant entities, including government authorities such as the Ministry of Public Works, development funds and projects, or local authorities at the governorate level. These partnerships should enhance the sector's competitiveness and capacity to secure government projects required for recovery and reconstruction.

Additionally, partnerships with international development institutions and private business organizations are essential for rebuilding the institutional capacity of contracting companies. This includes appropriate classification and development of their technical and administrative capabilities, enabling them to compete effectively and secure a larger share of development and reconstruction projects<sup>17</sup>.

### **3-3. Enhancing the Role of the Contracting Sector in Achieving Sustainable Development**

Given the significant importance of sustainable development concepts, which are based on the sustainability of natural resources and preserving the rights of future generations, along with the contribution to mitigating negative environmental impacts, it is essential to enhance and build the capacities of the contracting sector to utilize green technologies in construction practices. This can contribute to achieving the goals and requirements of sustainable development. Therefore, the contracting sector can be encouraged to:

- Utilize environmentally friendly building materials, such as natural and renewable resources, while reducing reliance on harmful materials.
- Adopt energy-efficient building techniques that reduce energy and water consumption and lower carbon emissions.
- Focus on designing green buildings that rely on renewable energy sources and provide a healthy and comfortable environment.
- Develop effective construction waste management practices and encourage recycling wherever possible, thus reducing pressure on natural resources.
- Preserve natural resources by using construction materials efficiently, maintaining biodiversity, protecting sensitive ecosystems, and avoiding harm to them.

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<sup>16</sup> Yemeni Federation of Chambers of Commerce and Industry. (2022). Impact of the truce on private sector activity in Yemen, October.

<sup>17</sup> Yemeni Contractors Union. (2024). Matrix of Damages to the Yemeni Contracting Sector and Required Remedies. Sana'a.

## 4. Policies and Procedures to Strengthen the Sector's Role

Previous results and estimates of the economic and financial losses incurred by the contracting sector in Yemen due to conflict and war reflect significant social and psychological losses among contractors, which have not been addressed in this paper but may equal or exceed the economic losses and damages. Therefore, it is crucial to focus on policies and priorities that mitigate the deterioration of conditions in this sector and other sectors of the national economy, while enhancing opportunities for growth and development, as follows:

### 4-1. Financing Policies and Procedures

- Develop a fair and equitable mechanism to assess the direct and indirect damages incurred by contractors due to the war, and design an appropriate system for providing suitable compensation to them in a way that enables the sector to contribute effectively to the implementation of economic recovery and reconstruction plans.
- Identify all overdue financial entitlements owed to contractors by various governmental entities from previous years, and have the Ministry of Finance to schedule these payments for disbursement as soon as funding becomes available.
- Ensure that international donor institutions provide sufficient funding to the government to settle long-overdue contractor payments (more than 10 years), enabling the sector to restore its developmental activities and enhance its productive capacity and economic and social contributions.
- Increase the proportion of external funding allocated to development projects compared to humanitarian efforts in Yemen to achieve sustainable development and create job opportunities for all segments of society.
- Support national banks and expand their financing options to ensure they benefit from foreign funding flows<sup>18</sup>, while enhancing and developing microfinance institutions to promote greater financial inclusion in Yemen. Additionally, improve mobile banking services to expand access to beneficiaries.

### 4-2. Capacity-Building Policies and Procedures

- Involve specialized business organizations, government institutions, and international donor agencies in providing the necessary technical and logistical support to rehabilitate Yemeni contractors and develop their capacities in line with the scale and type of upcoming projects and aligned with recovery and reconstruction needs.
- Support and develop consulting and engineering offices to adapt to new market changes while qualifying these offices to achieve international standards in this field, thereby enhancing their competitive capacity.

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18 - Development Leaders Forum. (2018). Private sector participation in post-conflict Yemen: Policy brief. <https://sanaacenter.org/ar/publications-all/main-publications-ar/6966>

### **4-3. Partnership-Building Policies and Procedures**

- Engage Yemeni contractors in developing an appropriate mechanism to address the status of stalled government projects, terminating all contractual obligations of the contractors who are responsible for executing these projects, and release all their financial and bank securities, while assessing the remaining work and its estimated costs for completion when funding becomes available.
- Involve the Yemeni Contractors Union as a specialized business organization in preparing future economic recovery and reconstruction plans, including partnership in assessing the extent of damage to public and private facilities and infrastructure in accordance with international standards.
- Promote the participation of the private sector and its various organizations in proposing and implementing institutional, financial, and administrative reforms related to the sector and its activities, thereby improving procedures, overcoming existing bureaucracy, and enabling the contracting sector and government entities to execute recovery and reconstruction projects smoothly and efficiently.
- Reform the legal framework related to contracting activities, particularly the government procurement and bidding laws, to meet the requirements of the upcoming phase and overcome obstacles that hinder the timely and efficient establishment of projects, ensuring the quality required for all types and sizes of projects.
- Facilitate bureaucratic procedures within governmental revenue agencies to ensure the accelerated implementation of projects.

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