With their ancient cultural heritage, Yemenis have managed to establish prosperous civilizations that played an important role in the East-West trade. They have distinguished themselves throughout history with their entrepreneurial spirit which endowed them with long experiences that enabled them to accumulate capital and build effective partnerships with the regional and international private sector.

The private sector played a major role in leading the economic activity prior to the war by contributing over 50% of GDP and providing employment for 69.4% of total employed population\(^1\). It was also a major contributor to the public budget deficit through treasury bills and Islamic Sukuk. During the ongoing war, the private sector has become more important and provided an excellent example in supporting humanitarian relief efforts and responding to market demands for goods and services. While the public sector reached a state of collapse, the already weak private sector continued to perform its development role, including the provision of education, health, water and electricity, and importation of fuel and other commodities even at high prices, thereby emphasizing that it has greater flexibility and better ability to cope with war conditions.

The private sector has been struggling to survive despite the deep wounds and violent shocks it sustains day by day, most notably the negative repercussions of the public finance crisis, liquidity crisis, physical damages, economic losses in enterprises and restriction of internal and external transactions. To mitigate the challenges and risks facing the private sector, it is important to reach an economic settlement to distance the private sector from war and conflict in order to ensure the continuity of the economic activity and improve the livelihoods of people.

First: Economic, Social and Humanitarian Role of the Private Sector: 

- Role of the Private Sector in Economic Activity:

The Gross Domestic Product (GDP) refers to the value of final goods and services produced by the society over a given period of time. By distributing the real GDP into public and private sectors, it’s noticed that the contraction rate in the public sector (-31%) was higher than the private sector (-18%) during the years of 2015-2016\(^2\). Thus, the private sector’s contribution to the real GDP increased from 62.3% in 2014 to 70% in 2016 (Figure 1). This reflects the private sector’s stronger immunity and better ability to cope with war conditions compared to the public sector, which reached a stage of almost total collapse, especially after the division of state economic institutions since late 2016. Therefore, the already feeble private sector became the main player in the Yemeni economy, along with the international and national organizations that endeavor to fill part of the vacuum left by the public sector in delivery of basic social services. This requires supporting the private sector and strengthening its role in turning the wheel of economic growth and generating work and income opportunities now and in the future.

**Facts and Indicators**

- **YER 600 / USD**
  - The parallel exchange rate in mid-September 2018.

- **22.2 million**
  - people in need of humanitarian assistance in 2018*.

- **6 in 10**
  - people are food insecure in December 2017.

- **24.3 million***
  - 90% of the population lack access to public electricity.

- **Over 41,000 Retirees** **
  - 33% of retirees in the GAIP without pensions since March 2017.

- **3 million**
  - people displaced (IDPs & returnees) as of September 2017.

- **47.1%**

### Sources:
- * UN Agencies.
- ** General Authority for Insurance and Pensions (GAIP), 2017.
- *** WB, June 2016.

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**In this edition:**

- **First: Economic, Social and Humanitarian Role of the Private Sector.**

- **Second: Main Difficulties and Risks Facing the Private Sector.**

- **Third: Priority Interventions.**

First: Economic, Social and Humanitarian Role of the Private Sector:

**Role of the Private Sector in Economic Activity:**

The Gross Domestic Product (GDP) refers to the value of final goods and services produced by the society over a given period of time. By distributing the real GDP into public and private sectors, it’s noticed that the contraction rate in the public sector (-31%) was higher than the private sector (-18%) during the years of 2015-2016\(^2\). Thus, the private sector’s contribution to the real GDP increased from 62.3% in 2014 to 70% in 2016 (Figure 1). This reflects the private sector’s stronger immunity and better ability to cope with war conditions compared to the public sector, which reached a stage of almost total collapse, especially after the division of state economic institutions since late 2016. Therefore, the already feeble private sector became the main player in the Yemeni economy, along with the international and national organizations that endeavor to fill part of the vacuum left by the public sector in delivery of basic social services. This requires supporting the private sector and strengthening its role in turning the wheel of economic growth and generating work and income opportunities now and in the future.

**Figure (1): Size of private sector and its share in the real GDP ($billion & %)**

![Graph showing size of private sector and its share in the real GDP](source)
At the level of the main economic sectors, the private sector used to dominate the real GDP of the Agriculture sector by 100%. This highlights the vital role of the private sector in Yemen’s national economy, especially since the Agriculture Sector provides about 20-25% of the total food commodities available in the country, and spreads geographically in rural areas where pockets of poverty are concentrated in Yemen. Table (1) indicates the growing contribution of the private sector to manufacturing, construction and services sectors during the war, despite the numerous damages and challenges facing it(A). This means that the private sector is more resilient and has greater ability to absorb shocks and adapt to the repercussions of the ongoing war, compared to the public sector.

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• **Social and Humanitarian Role of the Private Sector:**

The private sector plays a vital role in the social and humanitarian fields, where it used to provide employment for 20% of the total employed population, according to the Labor Force Survey 2013-2014. If all laborers in the non-public sector are considered as private sector employees, the private sector’s contribution to the employment of workers will increase to 69.4% (Figure 2).

Findings of the quick survey on the crisis’ impact on employment and labor market—conducted by the Central Statistical Organization and the International Labor Organization (ILO) in three governorates (Amanat Al-Asemah, Hodeida and Aden) in November 2015 indicated that total number of jobs in the three governorates decreased by about 132,000 (12.8%) between 2014-2015. Although not representative, if this were replicated nationally that would equate to 600,000 total job losses. The agriculture and services sectors were at the forefront of the most affected sectors by job losses. The loss of jobs was partly compensated by an increase in the construction workers by 8% due to the start of reconstruction activities in Aden and the resort of some residents to maintain the purchasing power of their money in the form of real estates (Table 2).

Despite the negative repercussions of the ongoing war on enterprises, a survey conducted in 2017 revealed that all employers reported that they retained majority of their workforce through negative adaptation strategies such as the reduction of salaries and working hours(5). This is in contrast to state employees, who haven’t received monthly salaries in most of the Yemeni governorates since late 2016. Private activities have become a haven for the state employees and a source of income for many of them.

(A) The increase in the private sector contribution to GDP is not attributed to the raise in the absolute value of the private sector’s GDP, but to the fact that the public sector is declining more than the private sector.
In education and health, the private sector had 899 basic and secondary education schools out of 16,730 school in 2016. In addition to 101 universities and colleges in high education accommodating 83,177 student in 2014(3). The private sector owned over 60% of the country’s health facilities in 2014(4). Since late 2016, the collapse of the public education and health system has been accelerated by the ongoing war repercussions, including the salary crisis for state employees, suspension of operating costs of public facilities in most of the governorates, while the private sector continued to provide education and health services to people. However, these services remain inaccessible by many low-income people due to their high costs. Private companies facilitate the flow of medical supplies to pharmacies and health facilities nationwide. Most international and national humanitarian organizations operating in Yemen relied on Yemeni companies to get medical supplies for the cholera response during April-September 2017 because of the ability of the private sector to import the needed supplies urgently.

Yemen imports most of its food needs from abroad. According to the UN Logistics Cluster, commercial imports accounted for 96.5% of food commodities that entered the country during January-March 2017, while INGOs have imported 3.5%(5). Humanitarian organizations rely on the private sector to provide supply chain services such as transportation, storage, customs clearance and re-shipping services. Private enterprise owners provide Humanitarian organizations with various goods and services, including automobiles, generators, food baskets and cash transfer services.

For sure the reliance of INGOs on local companies to carry out more of their activities and continuity to purchase from inside Yemen increases the employment and income opportunities and allows foreign exchange to flow into local markets, thereby supporting the national currency.
Out of its social responsibility towards the society, the private sector implements charity projects and provides hand of assistance to charities and the poor. For example, the private sector established the Yemeni Food Bank in 2017 as an independent humanitarian civil society organization to combat hunger in Yemen. At the inauguration ceremony, businessmen donated about YR300 million.

According to a questionnaire conducted by UNDP on 53 private organizations in Yemen in August 2017, 81% of these organizations were providing assistance to conflict affected persons(6). These organizations reported that the most important types of assistance they provide include financial services, food and health services (Figure 4).

**Second: Main Difficulties and Risks Facing the Private Sector:**

1. **Physical Damages of the Ongoing War:**

In May 2017, the World Bank estimated the funding requirements for reconstruction and recovery in Yemen at about $88 billion, including the reconstruction cost of physical assets of $25 billion(B). Despite the lack of updated and comprehensive data on war damages to the private sector enterprises, findings of a rapid survey conducted by the Small and Micro Enterprise Promotion Service (SMEPS), in cooperation with UNDP in six governorates (Abyan, Taiz, Hajjah, Aden, Sa’ada and Sana’a) during August-September 2015, indicated that 26% of enterprises were forced to shut their doors, 95% of the closed enterprises sustained partial and complete damages(8).

At the governorate level, enterprises operating in Taiz and Aden were most affected by 95% and 90% respectively (Figure 6). By governorate and the degree of damage (complete/partial), it’s noticed that the highest incidences of complete damages have been recorded in enterprises operating in Sa’ada governorate by 43% of the total affected businesses surveyed in Sa’ada (Figure 5).

In May-July 2017, the International Labor Organization (ILO) conducted an assessment of the damages to small and medium-sized enterprises in Sana’a city and its outskirts, which included 460 businesses (73% small enterprises and 27% medium enterprises). The assessment shows that the majority of these projects were affected by the war in 2015(9). However, enterprises that remained closed were less than 10%, while 41% of businesses resumed their operations partially. Findings of the survey revealed that 5% of the businesses were completely destroyed; 22% sustained significant damages to human, material and economic assets and 58% sustained limited damages. While some of the enterprises sustained physical damages, most of them (97%) sustained economic losses such as disruption of work, loss of expected revenues and a decline in the number of workers and customers(9).

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(B)These estimates do not necessarily reflect the total magnitude of current war damage and losses because the damages are increasing day by day and the survey methodology is deficient in terms of the geographical and sectoral coverage. Additionally, damages weren’t examined on the ground, but the assessment methodology was mainly based on remote data collection.
The average financial compensation required for a medium-sized enterprise to resume its operations was estimated at $40,541, while small entrepreneurs need $18,108 on average. Most of the required funding covers materials and assets\(^9\). In order to recover, small entrepreneurs reported that they needed to borrow money while medium-sized entrepreneurs were more interested in getting equipment and operational capital to resume their operations.

2. Restrictions on Internal and External Transactions:

The ongoing war has severely affected the basic infrastructure in large parts of the country, including roads, bridges, land, sea and airports and imposed severe restrictions on movements of people and internal and external trade, thus raising the costs of the private sector. For example, armed confrontations in Haradh-Al-Tawal area resulted in the closure of the Al-Tawal Port since May 2015, the most important land port, thereby forcing people and goods to pass through Al Wadieah land port, which is more than twice the distance far from the highly-populated areas in Yemen\(^{10}\). It takes more time, effort and money and poses higher risks compared to using usual roads.

Most of the commercial shipments were referred to Aden Port and then had to pass through several checkpoints along the roads before reaching traders’ warehouses in Sana’a and other cities. This delays the shipments add high financial costs, including customs duplication. Not to mention the increase in internal transportation costs on such shipments that may be higher than the cost of shipping due to the monopoly of the Syndicate of Heavy Transport Trucks Drivers for the internal transportation from Aden Port\(^{10}\). Table(3) indicates the approximate transporting costs for 20 ft. and 40 ft. containers (or their equivalent) from Aden/ Hodeidah to Sana’a in 2017, compared to the pre-war period. These fees have undoubtedly increased currently.

<table>
<thead>
<tr>
<th>Pre-conflict</th>
<th>During the conflict</th>
<th>Price increase</th>
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<td>20 ft.</td>
<td>40 ft.</td>
<td>20 ft.</td>
</tr>
<tr>
<td>Hodeidah – Sana’a</td>
<td>150,000</td>
<td>230,000</td>
</tr>
<tr>
<td>Aden – Sana’a</td>
<td>230,000</td>
<td>310,000</td>
</tr>
</tbody>
</table>

* Since the war broke out payments are required at various checkpoints along transport routes; however, these are not included in the above prices
Source:Ala Qasem and Brett Scott, Deeproot Consulting, Navigating Yemen’s Wartime Food Pipeline, November 2017.

Shipping of goods to Yemen is very expensive and shipments that used to take a month prior to the war need three to four months now due to the delays in entry and clearance of ships in Yemeni ports and the imposition of additional insurance premiums due to war risks at $500 per shipment equivalent to 20 feet and $1,000 per shipment equivalent to 40 feet. The insurance costs are even added to shipments going to Aden despite the city being declared as a safe area, i.e., not a subject of the UN Verification and Inspection Mechanism for Yemen (UNVIM)\(^{10}\).
In addition, air freight costs have increased because insurance companies impose 200% as insurance fees on Yemen Airways(10). Airports in Sana’a, Aden, Hodeida, Mukalla, Seiyun and Taiz sustained damages. Air flights were resumed only at Aden and Seiyun airports, with international flights limited to Cairo and Amman, while other airports in Hodeida, Taiz and Mukalla remain closed. In Sana’a, only UN humanitarian flights are allowed to land at the airport. This hinders shipping the goods of the private sector and the transfer accumulated foreign currency balances of the private sector and banks to and from Yemen.

In addition, strict limitations have been placed on cash transfers between areas under the control of the parties to the conflict. The majority of correspondent banks suspended dealing with Yemeni banks in US dollar remittances and opening documentary credits due to the classification of Yemen as a high-risk area. This greatly affects the provision of banking services such as international remittances and commercial financing, which are vital to the good performance of the economy and to enable the private sector to import goods and services. Foreign banks that agree to open documentary credits require cash insurances by 100% of Yemeni bank balances for these credits, thereby raising the prices of imported goods.

3. Public Finance Crisis:

The private sector has a close interrelationship with the public finance. on the one hand, it is a major contributor to the public budget through the payment of taxes and fees, purchase of treasury bills and Islamic Sukuk and provision of hydrocarbon revenues produced by foreign companies. On the other hand, the public expenditure is a key driver of the private sector’s activities and demand for its products and services, thereby improving employment and income levels in the economy as a whole.
However, the collapse of public finance system as a result of the ongoing war have had a heavy impact on the private sector. The ratio of public revenues to GDP declined from 31.4% in 2014 to 16.1% in 2016 due to the disruption of hydrocarbon exports, suspension of donor support to the public budget and contraction of tax revenues. Under pressure from the declining revenues, the ratio of public expenditure to GDP declined from 36.1% in 2014 to 30.1% in 2016(11). The situation worsened further with the division of public finance and collapse of the public budget following the relocation of the Central Bank of Yemen (CBY) to Aden in September 2016. This had disastrous consequences on the public and private activities. Figure (8) clarifies the transmission channels of the public finance crisis to the private sector in more details.

### Figure (8) Implications of the Public Finance Crisis on the Private Sector

<table>
<thead>
<tr>
<th>Suspension of salaries in most governorates, as well as the social welfare assistance and pensions. This affects income levels and leads to a contraction in the demand for private sector products.</th>
<th>Suspension of fuel subsidies and disruption of the operating expenses for public facilities in large parts of the country, including water and electricity through the public grid. This raises the production, transportation and storage costs; contributes to the low productivity and revenues of the private sector and reduces its capacity to expand and generate employment and income opportunities.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Freezing the projects of the Public Investment Program, which has greatly affected the contracting sector and its activities. Non-payment of hundreds of billions arrears owed to the contracting sector and suppliers.</td>
<td>Non-payment of domestic public debt interests and installments, thus depriving investors in treasury bills from the returns of their financial investments and leaving the banking sector vulnerable to a severe liquidity crisis, which has adversely affected entrepreneurs. Placing further tax and customs burdens on the private sector and undermining the confidence between the public and private sectors.</td>
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### 4. Aggravation of the Liquidity Crisis:

The liquidity crisis has contributed to the nonpayment/reduction of wages and salaries and the layoff of some workers from enterprises, thereby reducing their purchasing power for food and non-food staples and deepening the contraction in demand for the private sector’s products. As a result, the economic activity has deteriorated and unemployment and poverty rates have increased.

Additionally, the foreign exchange liquidity crisis has led to growing obstacles and higher costs on the private sector and restricted its ability to import goods and services such as wheat, rice, sugar, medicine and fuel. The direct purchase of U.S dollar by goods’ importers from the parallel exchange market puts strong pressure on the exchange rate, thereby increasing the cost of imported goods. For example, the retail prices of food commodities reached to 39%-104% in May 2018 compared to what it was in pre-crisis period affected among other factors by the foreign exchange scarcity(12). This poses a threat on food security in the country and requires securing trade finance facility for basic commodities and fuel at a fixed exchange rate.

The banking sector is currently facing a severe liquidity crisis, where about 65% of bank’s total assets are out of control and unavailable for use in the form of government securities, balances (deposits and required reserves) at the CBY and loans offered to the private sector in danger of default(13). Therefore, banks are unable to meet the demands of their clients (business owners) in a timely fashion. This has affected the activities of those clients, weakened their confidence in the banking sector and made them prefer to keep liquidity outside banks. Not to mention the emerging challenges of the liquidity crisis, such as the large difference between the payment in cash and check or refusal to accept checks, low exchange rate of the earlier series of U.S. banknotes (before 2006) compared to the new series, in addition to the increase in the percentage of non-performing loans which reached 52.5% of the total loans and facilities of banks to the private sector in December 2017(13). Therefore, banks demand large guarantees on credit, which hinders the private investments.
5. Deterioration in Doing Business:

Yemen is ranked 186 among 190 countries worldwide in the World Bank’s Doing Business Indicator-2018 (Figure 9). This places Yemen among the top five worst countries on the map of the world’s Doing Business. The countries that are worse than Yemen are South Sudan, Venezuela, Eritrea and Somalia. Yemen’s rank has significantly dropped from 101 in 2012 to 186 in 2018, making it difficult for Yemen not only to attract foreign investments, but also to regain the national migrant capital and foreign companies that left Yemen due to the conflict.

By comparing Yemen’s rank with the countries of Middle East and North Africa Region in the main indicators of the Doing Business, it’s noted that Yemen scored the worst performance in indicators of trading Across Borders, getting electricity and credit. In addition to the deterioration of Yemen’s rank in other indicators such as ease of doing business and dealing with construction permits. This reflects the suffering of the private sector inside Yemen.

Table (4) The Republic of Yemen and the MENA Region: Doing Business Indicators, 2018

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Yemen Rank</th>
<th>Worst regional performance</th>
<th>Best regional Performance</th>
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<tr>
<td></td>
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<td>Rank</td>
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<tr>
<td>Ease of Doing Business Rank</td>
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<td>185</td>
<td>Libya</td>
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<tr>
<td>Starting a Business</td>
<td>163</td>
<td>167</td>
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<td>Dealing with Construction Permits</td>
<td>186</td>
<td>186</td>
<td>Yemen, Syria, Libya</td>
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<tr>
<td>Getting Electricity</td>
<td>187</td>
<td>187</td>
<td>Yemen</td>
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<td>Registering Property</td>
<td>82</td>
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<td>Libya</td>
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<tr>
<td>Getting Credit</td>
<td>186</td>
<td>186</td>
<td>Yemen, Iraq, Libya</td>
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<tr>
<td>Protecting Minority Investors</td>
<td>132</td>
<td>186</td>
<td>Djibouti</td>
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<tr>
<td>Paying Taxes</td>
<td>80</td>
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<td>Egypt</td>
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<tr>
<td>Trading Across Borders</td>
<td>189</td>
<td>189</td>
<td>Yemen</td>
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<tr>
<td>Enforcing Contracts</td>
<td>140</td>
<td>175</td>
<td>Djibouti</td>
</tr>
<tr>
<td>Resolving Insolvency</td>
<td>156</td>
<td>168</td>
<td>Saudi Arabia, Iraq, Libya</td>
</tr>
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</table>

Traditional policies and interventions are no longer useful to encounter the challenges and risks that plague the Yemeni private sector in light of the ongoing war and conflict in the country. In this context, the Chamber of Commerce and Industry expressed its views for the solution by presenting the private sector’s initiative for economic settlement between the parties to the conflict to ensure the continuation of economic activity and enhancement of livelihoods in Yemen. This edition highlights the terms of this initiative as follows:

1- Ensuring the independence and impartiality of the CBY and unifying its administration under one independent and neutral leadership, or at least ensure full and direct coordination between the CBY structures in Sana’a and Aden if it is not currently possible to unify the administration.

2- Ensuring full freedom of land, sea and air transport, focusing on:
   - Facilitating the foreign trade movement by opening all land, sea and air ports without exception to allow the flow of the private sector’s goods and the movement of businessmen and travelers.
   - Facilitating the movement of travelers, businessmen and goods between different areas of Yemen, as well as neutralizing all seaports, airports, roads and bridges from military operations.
   - Restoring the full operational capacity of Yemeni ports, including Hodeida Port, by repairing the damages and expediting ships unloading and entry to the ports, and abolishing the monopoly of the Syndicate of Heavy Transport Trucks Drivers for the internal transportation from Aden Port.

3- Neutralizing all sovereign state revenues, by focusing on:
   - Directing all oil and non-oil sovereign resources, including foreign aid, to one party such as the CBY or an agreed upon special fund under a neutral Yemeni leadership and the supervision of the international community (EU and / or IMF and WB).
   - Agreeing on aspects to spend these revenues, most importantly paying the monthly salaries and wages of all state employees throughout Yemen according to the 2014 payrolls and providing the inevitable operating expenses for the health and education sector at all stages.

4- Neutralizing electricity from war and conflict by focusing on:
   - Neutralizing electricity plants and networks from war and conflict, and imposing international sanctions on saboteurs.
   - Re-operating the public and local power plants.
   - Providing periodic maintenance for the power plants and repairing and maintaining the electricity transmission networks.
   - Ensure the safety of engineers and technicians and their freedom of movement between different areas throughout Yemen by the parties to the conflict.

5- Resuming hydrocarbon production and exports by focusing on:
   - Rehabilitating and operating the oil and gas facilities to ensure the resumption of hydrocarbon production and exports.
   - Rehabilitating and operating the Aden and Marib refineries, thus supplying the local market with nearly half of its fuel needs.

6- Mobilizing donor support for agricultural, fisheries and livestock activities and improving livelihoods of citizens.

7- Neutralizing the private telecommunication companies from war and conflict, focusing on:
   - Paying all financial obligations and taxes of the telecommunication companies to the CBY or the special fund as agreed.
   - Enabling employees and engineers of the telecommunications companies to move freely between all Yemeni areas for the maintenance of transmission stations and equipment.
   - Coordinating between the concerned authorities on how to control these companies and releasing their equipment held in some ports.
Annex: Map of access roads in Yemen:

Source: https://logcluster.org/map/yemen-access-constraints-map-22-may-2018
Key Sources:


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