Prospects for Yemen’s Economy and Livelihoods Priority

**INTRODUCTION**

Yemen’s national economy is witnessing very critical conditions, where cumulative decline in macroeconomic indicators and balances reached the worst stage. Given the ongoing war and division in the economic institutions, economic prospects seem vague and bleak. This edition highlights the expected results and indicators of the national economy during 2019-2020 within three scenarios.

Results and trends of the indicators of the first scenario “optimistic” are based on the assumption of reaching an inclusive political settlement, punctuated by political and economic confidence-building steps. The second scenario “middle” assumes that the current situation and war will continue sporadically, punctuated by slow and protracted political talks. The third scenario “pessimistic” is based on the assumption of political blockage and widening military confrontations, and hence the growing economic and humanitarian cost and widening development gap between Yemen and other countries in the region and the world.

In all previous scenarios, providing livelihoods is of paramount importance in crisis-affected and war-torn countries to make people less vulnerable and more resilient to economic shocks. Therefore, this edition provides a package of proposed interventions to expand employment and income opportunities and improve people’s access to sustainable livelihoods.

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**FACTS AND INDICATORS**

- **YER 544 / USD**
  - The parallel exchange rate in January 2019.
  - 2.8% Self-sufficiency ratio of wheat in 2017

- **24.1 million**
  - people in need of humanitarian assistance in 2019 *.

- **$ 49.8 billion**
  - Cumulative losses in real GDP during 2015-2018

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

- **4.4 million**
  - people displaced (IDPs & returnees) as of December 2018.

- **46.1%**
  - Cumulative decline in real GDP during 2015-2018.

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**SOURCES:**

* UN Agencies.
** WB, June 2016.
The ongoing war in Yemen has disrupted economic activities on a large scale and significantly reduced job and income opportunities in the public and private sectors. The real GDP has shrunk by 46.1% over the past four years. Cumulative losses in real GDP were estimated at $49.8 billion over the same period.

In parallel, the economic institutions were divided and the public finance and banks faced a severe liquidity crisis with many consequences, including the interruption or nonpayment of monthly salaries of a large part of state employees for more than two years, suspension of payment of interest and installments on local and external public debt and inability of banks to meet clients demands in terms of deposit withdrawal, amid the halt of oil and LNG exports, limited external reserves and the sharp decline in remittances from abroad due to restrictions on remittances to Yemeni banks.

The exchange rate hit a record high and reached YER800 on September 30 and October 1, 2018, compared to about YER215/USD during the pre-war period. Despite the relative improvement in the economic activity and the national currency value thereafter, exchange rates remain volatile.

In order to explore the prospects of the Yemeni economy during 2019-2020, it is not useful to use the ordinary economic analysis tools in such exceptional circumstances in the country. In this context, we will try to predict the trends of the most important macroeconomic indicators through three possible scenarios, as follows:

1) **Optimistic scenario:**

- **General assumption:** An inclusive political settlement is reached by the end of 2019 or early 2020, and the negotiation period will include steps to establish political and economic confidence.

- **Expected results:** Once confidence-building measures are implemented and progress is made in serious political negotiations, the following are expected:

  - Settling the monetary authority file and providing monthly salaries to all state employees within the available local resources and donor support.
  - Easing restrictions gradually on passenger movement and internal and external trade, as well as resuming hydrocarbon exports and restoring the capacity of refineries gradually.
  - Increasing the flow of foreign grants and aid to the humanitarian situation and supporting the national currency and monthly salaries of state employees during 2019, in conjunction with the implementation of confidence-building measures and serious political negotiations.
  - Bolstering confidence in the banking system and the national currency, a relative activation of aggregate demand and a gradual resumption of the capacities that were disrupted during the war period.
  - Total stability in prices of staple food and a relative stability in prices of other goods.
  - Improved access to basic social services in education, health and water sectors.
  - Establishing the initial technical and institutional arrangements for reconstruction programs.

After reaching a political settlement, the macroeconomic indicators and balances will witness remarkable positive leaps, supported by the optimism of citizens, unification of state institutions and the flow of foreign support to enable the public budget to resume its functions throughout the country and pay the arrears on the budget and support the foreign reserves, reparations, reconstruction and national recovery programs. The World Bank estimated the funding requirements for recovery and reconstruction at $88 billion as of May 2017 ($17.6 billion per year for five years).
During the first year of the peace agreement entry into force, the parallel market activities are likely to disappear along with the emergence of the positive effects on economic stability indicators, including the appreciation of national currency value, decline in prices and achieving surplus in the balance of payments and controlling the budget deficit within the safe limits, while real economic growth will increase strongly starting from the second year of the peace agreement.

**Trends of key indicators:**

<table>
<thead>
<tr>
<th>Description</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
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<th>2018*</th>
<th>2019*</th>
<th>2020*</th>
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</thead>
<tbody>
<tr>
<td>Real GDP %</td>
<td>-10.61</td>
<td>-30.46</td>
<td>-14.61</td>
<td>-9.96</td>
<td>0.78</td>
<td>4.5</td>
<td>7.0</td>
</tr>
<tr>
<td>Consumer Price Inflation - End Year %</td>
<td>10.37</td>
<td>23.9</td>
<td>11.9</td>
<td>15.0</td>
<td>20.7**</td>
<td>10**</td>
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<td>Balance of payments as % of GDP</td>
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<td>-9.7</td>
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<td>-7.37</td>
<td>-2.14</td>
<td>-2.87</td>
</tr>
<tr>
<td>Investment ratio to GDP %</td>
<td>21.09</td>
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<td>15.96</td>
<td>23.94</td>
<td>31.03</td>
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* Forecasts ** Average period

2) **Medium Scenario:**

**General assumption:** This alternative assumes that the current situation remains as it is and the ongoing war will continue intermittently, punctuated by slow and protracted political consultations during 2019-2020.

**Expected results:**

- Improved level of adaptation of some social groups and economic activities to the repercussions of the ongoing war in areas far from armed confrontations, especially in the construction sector, the cement industry, electricity, energy and trade, with a limited increase in oil production and the shift of some people who have lost their source of income to alternative activities.

- Lack of liquidity available to banks and public finance and inability to pay monthly salaries of the majority of public employees and basic services expenses in many areas.

- Increase in the public debt burden, along with the weak confidence of the banking sector in buying domestic public debt securities.

- Dispersion of public revenues, division of the economic institutions and conflict and duplication of the fiscal and monetary policies, along with an increase in banknotes issuance and the continuous dispersion of currency outside banks.

- Low public and private investment spending and its concentration in specific areas. It will be partially compensated in other areas through the opening of partnership channels with the private sector to provide some services and carry out some projects according to the appropriate forms of partnership.

- The flow of foreign exchange resources to Yemen within the limits reached during 2017-2018, which is sufficient to prevent high fluctuations and sharp exchange rate shocks.

- Continue to finance imports of basic food commodities at the official exchange rate to ensure that prices remain below their level during September-October 2018.

- Limited access to basic social services in education, health and water.

- Ongoing lack of electricity provided through the public grid in many governorates.

- Ongoing restrictions on transactions between governorates and externally to and from Yemen.
3) Pessimistic scenario:

- **General assumption:** Blockage of the political horizon and failure of initial understandings in the peace talks in Sweden, as well as the widening range of military confrontations during 2019-2020

- **Expected results:**
  - Physical damages to more public and private facilities, the growth of parallel market activities and deepening contraction of economic activity.
  - Widening liquidity crisis in public finance and banks, accumulation of the domestic public debt burdens in the future and growing war economy at the expense of development.
  - Ongoing division of the economic institutions, conflict and duplication of fiscal and monetary policies, increase in the issuance of new banknotes and currency outside banks and more severe deterioration of the macroeconomic indicators and balances.
  - Tightening restrictions on transactions between governorates and to and from Yemen, limited oil exports and a lack of foreign support, thereby leading to the shortage of foreign exchange, further deterioration in the national currency and price hikes to levels higher than in September - October 2018.
  - Erosion of capacity of state institutions and difficulty to have access to basic social services.
  - Further distortion in the investment climate and more brain drain and capital flight outside Yemen.
  - Growing cost of war and the widening development gap between governorates and between Yemen and its regional and international surroundings

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Trends of key indicators: *Forecasts **Average period
Second: Livelihoods Priority:

According to Yemen Humanitarian Response Plan 2019, Yemen’s humanitarian crisis is the worst worldwide, with a high proportion of people facing the risk of death, hunger and diseases more than any other country in the world. It is estimated that 80% of the population - 24.4 million people - needs some form of humanitarian or protection assistance, including 14.3 million people in acute need.

Food security is alarmingly deteriorating throughout Yemen, with some 20.1 million people in need of assistance to secure their food. Livelihoods and sources of income in the private and public sectors have been severely affected by the repercussions of the ongoing war, most families have spent all their savings and are facing high difficulties in accessing food and basic social services. Consequently, an increasing number of households have been forced to adopt negative coping mechanisms such as reducing food consumption and selling homes, lands, productive assets, livestock and furniture.

The provision and recovery of livelihoods is very essential in all previous scenarios and both in times of war and peace. It’s more important in countries affected by crises, natural disasters, war and conflict to make people less vulnerable and more resilient to economic shocks by providing work and income opportunities, supporting the market and production and providing people with sustainable livelihoods.

Grants and foreign assistance are the most important supported pillars of the economic and humanitarian situation and alleviation of poverty and deprivation in the country. While grants and foreign assistance were among the most important foreign exchange resources of the Yemeni economy in previous years, they represented the first resource of foreign exchange in 2018 in particular, where the funding provided to activities and programs inside and outside the Humanitarian Response Plan (HRP) was $4.377 billion in 2018(1), of which $24.8 million was allocated for Emergency Employment and Community Rehabilitation.

However, the number of people in need of humanitarian assistance is growing day by day. To ensure increasing the sustainability of foreign support and maximizing the benefits, the funding allocated to sustainable livelihoods programs should be increased within the framework of the HRP interventions, for the following considerations:

• The protracted ongoing war which requires focusing not only on immediate interventions but also on giving more space for sustainable interventions to enhance the economic resilience of Yemenis, avoid the loss of people’s remaining assets. Therefore, findings of the 2018 Assessment confirm that all Yemeni population groups rank livelihoods among their top three priorities(2).

• The ongoing war, which requires not only urgent interventions but also greater space for sustainable interventions to enhance the economic resilience of the citizen and avoid loss of the remaining assets of the population. Therefore, the results of the 2018 evaluation confirm that all Yemeni population groups classify livelihoods as among their first three priorities.

• Empower the poorest and most affected people to have access to food and non-food items in a way that ensures their survival and dignity.

• Generate equitable wages that contribute to achieving food security, generate sustainable employment and income opportunities and prevent the sliding of more people into food insecurity and malnutrition.

• Facilitate people’s access to goods and services in the market (consumers, producers and traders).

• Support small and micro enterprises.

• Economic empowerment for households and rural women as well as supporting the poor and low-income people to shift from consumers who rely on temporary aids to self-reliant producers.

(1) Not including the currency support of the Central Bank in Aden and the monthly grant of fuel to the electricity sector.
(2) Source: Yemen Multi-Cluster Location Assessment (MCLA) 2018 (for all population groups except for migrants).
### Proposed livelihood interventions:

<table>
<thead>
<tr>
<th>Key areas</th>
<th>Interventions</th>
<th>Concerned entity</th>
<th>Time frame</th>
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<td><strong>Income and employment:</strong></td>
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<td><strong>Food-for-Work (FFW)</strong></td>
<td>Increasing the support for labor-intensive work programs to rehabilitate community infrastructure and assets such as roads, schools and irrigation systems by providing the unemployed poor people with food-for-work assistance. Food rations are often calculated at less than the daily average wage in the area.</td>
<td>Public Works Project (PWP) and the Social Fund for Development (SFD)</td>
<td>Immediate</td>
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| **Cash-for-Work (CFW)**           | o Providing cash payment to beneficiaries in return for working in labor-intensive programs to rehabilitate roads, streets and water resources; rebuild community assets; clean remnants of war and dispose of solid waste, thereby stimulating local economic activity by focusing on the poorest and most affected areas and groups.  
  o Making use of the Indian experience in implementing the Rural Employment Guarantee Scheme, which provides work for applicants within 15 days. Applicants who don’t get work are entitled to an unemployment allowance (25% of the wage).  
  o Providing cash grants linked to housing programs to resume livelihoods for people who lost their homes due to the war. | PWP and SFD | Immediate and mid term |
| **Cash grants**                   | o Providing cash grants to targeted households to meet their basic food and non-food needs or to purchase productive assets, restore their livelihoods and pay off their debt. | UNICEF, World Bank and humanitarian INGOs | Immediate and mid term |
| **Small and microfinance**        | o Providing financial services to economically active poor and low-income people such as microcredit and encouraging credit with reasonable guarantees such as accepting shop and assets as collateral on microcredit.  
  o Expanding the Decent Life Program to support food production, especially in rural areas, through the provision of financing by the microfinance institutions to farmers and food producers such as mill owners, honey producers.  
  o Expanding the coverage of Takaful funds in MFIs to help insolvent borrowers (rescheduling and extending the repayment period) who are about to close their businesses, with a focus on compensating the physical damages sustained by businesses due to the war.  
  o Focusing on new and rural financial products such as solar energy, green houses, houses reconstruction, sewing and embroidery for women, agricultural projects (irrigation, seeds, cattle rearing, honey, cheese and milk production, packaging and drying of dates and tomato paste production).  
  o Paying attention to financing the youth self-help initiatives and productive household programs and supporting rural women to possess productive assets. | SFD, Yemen Microfinance Network (YMN), MFIs and donors | Immediate, mid and long term |
| **Food assistance**               | Continue to distribute food aid to the affected population to alleviate their suffering and help them maintain their productive assets, if any.                                                                 | WFP and donors                          | Immediate and mid term |
| **Market support:**               |                                                                                                                                                                                                            |                                        |                        |
| **Cash and commodity vouchers**   | Distributing cash and commodity vouchers to the affected population to provide them with specific commodities from certain stores to meet their basic needs, support the production and stimulate the markets. | WFP and donors                          | Immediate and mid term |
| **Reducing the prices**           | Activating offices of the Yemen Economic Corporation (YEC) to compete with the private sector in providing basic food commodities to people at cost.                                                                 | Ministry of Industry and YEC            | Immediate and mid term |
| **Market infrastructure**         | Maintain damaged roads to improve access of producers and consumers to the market by expanding the CFW or FFW programs.                                                                                       | SFD and PWP                            | Immediate and mid term |
### Proposed livelihood interventions:

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| **Agricultural activity** | o Reducing the agricultural production costs to stimulate agricultural businesses affected by fuel price increase by supporting farmers to purchase solar energy systems and covering part of the cost to help farmers shift from using diesel to solar energy to operate irrigation pumps.  
  
  o Conducting field studies to assess the needs of farmers and support them to have access to modern production techniques: High productivity seeds that are drought and disease resistant, modern irrigation methods, mechanization, fertilizers and expansion of water harvesting projects.  
  
  o Introducing new technologies such as using cellphones and social media programs with text and videos to enhance the efficiency of agricultural extension services by appointing focal points in agricultural areas to link farmers with the governorate-level extension offices to disseminate awareness messages on best practices and provide training and consulting programs to address agricultural problems, as well as using such tools to link the owners of agricultural machinery and farmers in need of these machinery.  
  
  o Imposing measures to prevent the slaughter of small livestock and determine an age of slaughtering when animals complete their growth with effective control over restaurants and meat markets.  
  
  o Promoting the expansion of production of cash crops with comparative advantage as an alternative to Qat cultivation such as coffee, honey, almonds and dates, and developing the marketing and exporting capabilities.  
  
  o Empowering rural women to possess productive assets, including poultry, goats and cows rearing; beekeeping; taking care of domestic gardens and drying and pickling fruits and vinegarise vegetables.  
  
  o Establishing partnership with the private sector to set up poultry feed factories and provide veterinary care for the cattle.  
  
  o Adopting a credit policy by the Central Bank to stimulate grains cultivation and related activities through:  
    • Reducing the statutory reserve ratio on bank loans for grains cultivation compared to the statutory reserve ratio on other deposits.  
    • Opening a special discount window for banks that invest an appropriate amount of credit in grains cultivation.  
    • Encouraging banks to provide interest-free and installment loans to purchase modern irrigation systems and other production inputs on crops and lands as collateral. | FAO, donors, Ministry of Agriculture, Banking System and the private sector | Immediate, mid and long term |
| **Fishing**          | o Compensating fishermen whose boats have been damaged, supporting the youth to possess fishing tools such as nets and boats and repairing the damaged fishing boats.  
  
  o Rehabilitating the war-affected fish landing centers; improving and expanding the fish market infrastructure and setting quality standards for them and developing the fishing industry infrastructure including unloading, cooling storage, packaging and distribution.  
  
  o Building the capacities of young fishermen and developing their skills in the use of modern equipment, cooling, transportation and marketing.  
  
  o Establishing a national control system for managing marine resources and organizing fishing operations, as well as encouraging private investments in fishing and fish production.  
  
  o Conducting studies to identify the most important fishing areas in the Yemeni waters, making use of international best practices in evaluating and developing the fish stock, in addition to establishing fish-farming facilities and setting sustainable fishing shares. | FAO, donors and Ministry of Fish Wealth | Immediate, mid and long term |
### Proposed livelihood interventions (Cont.):

<table>
<thead>
<tr>
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</table>
| **Construction and industry**      | - Repairing dams and water barriers that have been damaged and need maintenance to increase the agricultural sector’s production.  
- Rehabilitating damaged historic and tourist sites to preserve Yemen’s cultural heritage and achieve long-term tourism development.  
- Expanding the public works projects, focusing on the maintenance of roads and bridges and rehabilitation of damaged schools and health facilities.  
- Paving and renovating roads and streets and clean them of the remnants and runes of war.  
- Implementing medium and long-term interventions to rehabilitate the community productive assets. | Donors, ministries of agriculture, water and tourism and PWP | Immediate, mid and long term |
| **Mining**                         | - Restoring the production capacity of the cement factories and expanding them to meet the current demand and the reconstruction requirements after achieving peace in the future.  
- Activating and expanding the glass, ceramic and painting industry.  
- Expanding the marble and granite industry, which are available in large commercial quantities, and the building and decoration stones to meet the current and future demand during the reconstruction phase.  
- Making use of the abundant zeolite ores that can be used locally in agriculture to reduce water use, improve soil and treat wastewater, as well as exporting it abroad. | Ministry of agriculture, Private Sector and Ministry of Oil and Minerals | Immediate, mid and long term |
| **Skills development**             | - Developing youth skills and preparing them for the peace and reconstruction phase, including those who dropped out of schools and semi-skilled and unskilled labor, focusing on the skills of construction, painting, furniture, decoration, carpentry, plumbing, electricity, tiling, blacksmithing and designs.  
- Providing training in first aid, automotive smoothing and electricity, sewing and embroidery, incense and refrigeration and air conditioning. | Ministry of Technical Education and Vocational Training and donors | Immediate, mid and long term |