



Arab Watch Coalition presents

Yemen's External Debt and its Impact on the Yemeni People

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2022

Introduction

Yemen, like other developing and poor economies, is suffering from a heavy external debt burden. This excessive debt has further complicated economic and social development plans in the country at a context marked by the Covid-19 pandemic, a ravaging war and political divisions that plagued Yemen along with many Middle eastern countries.

These developing countries had pinned hopes on external financing to achieve their development goals, boost growth and curb poverty. Unfortunately, these goals are yet to be achieved, as many studies show the interconnectedness between heavy debt and sluggish growth, further complicating the quest of these countries to escape poverty¹.

Expensive debt servicing has also constrained the ability of many developing countries to support social development and provide basic services, as part of the fulfillment of economic, social, environmental and cultural rights.

Besides being one of the poorest countries, Yemen is also suffering from a devastating war and extremely complex political conditions that have strongly undermined its economy and weakened its ability to provide social services and essential goods. The World Bank estimates that Yemen's² GDP has contracted by about 50% since 2015, citing a drop in oil and gas revenue, as well as other exports, which left the government incapable of providing services such as education, healthcare, water access and sanitation. Moreover, hyperinflation has hit hard the purchasing power of the Yemeni people with food and fuel prices soaring by 150%

¹ Benedict Clements, Reina Pancharia, Tuan Kwok Nuen, *Can Debt Relief Boost Growth in Poor Countries?*, IMF, Economic Issues 34, April 2005.

² UNDP website – Millennium Goals - <https://www.ye.undp.org/content/yemen>

and 200% respectively. More than half Yemeni people live on less than \$1.9 a day and some 80% are in need of humanitarian assistance and protection³.

The present research paper aims to examine the mechanisms of international lending and loan requirements imposed by international financial institutions, notably the World Bank and the International Monetary Fund. It also aims to take stock of Yemen's debt ordeal and assess its impact on the economy and on the lives of ordinary Yemenis. The research also offers proposals to mitigate the debt impact.

This study derives its significance from looking deeply into the causes and effects relating to Yemen's external debt problem and its repercussions on citizens by taken into account all aspects of the status quo, with the goal to contributing to the development of a plan or program to ease the debt burden and help the government gear resources to improve basic services, especially in the wake of the war and the Covid-19 pandemic.

The research is based on a descriptive analytical approach, including field trips to the ministry of planning and international cooperation, the ministry of finance and the central bank. Its findings are also deduced from interviews with public officials, as well as other sources, including economic and financial reports from local and international authorities.

³ UNDP, <https://www.ye.undp.org> The date of the visit is October 14, 2020.

Chapter 1

Yemen's economy

Yemen's economy has been rapidly deteriorating since 2015, under the impact of a devastating war, that has affected most productive sectors, further complicating the poor country's efforts to maintain basic services.

This chapter reviews Yemen's economic situation during the pre-war period until 2015. It afterwards looks at the outlook post 2015.

Yemen's economy before 2015

Yemen has ranked as the poorest country in the region for decades, due to significant economic imbalances, partly as a result of political instability in the wake the 1994 war. The country has implemented reforms in cooperation with the World Bank and the International Monetary Fund. However, despite limited economic achievements over 1995-2010, Yemen was still economically lagging. By 2011, the youth revolution and the surge of political crises laid the groundwork for a bloody civil war that began in 2015, leaving destructive repercussions on Yemen's economic outlook.

Official data showed that Yemen's economy contracted by 11% in 2011, while the unemployment rate soared to 14.6% in 2010. Youth unemployment, in particular, worsened to 60% and food prices skyrocketed as annual inflation rose by 23% at the end of 2011. Poverty was estimated to have affected 42% of the total population in 2009 and 54.5% in 2011.⁴

⁴ World Bank, Confronting The Hard Facts in Yemen
<https://www.albankaldawli.org/ar/news/feature/2012/09/26/yemen>14/10/2021

TABLE 1 YEMEN'S ECONOMIC INDICATORS 2012-2014 (Millions of Dollars)

	2012	2013	2014
GDP	32074***	34755***	31742***
GDP growth	3.47%**	8.5%**	-8.5%**
Revenue	11237**	9791**	10070**
Spending	12969**	12674**	13089**
Fiscal deficit	1732.**	2882.**	3019.**
Fiscal deficit ratio	13.35%	22.7%	23%
Long-term external debt	6942*	6924*	6861*
External Debt + IMF Credit	7586*	7688*	7723*
Ratio of external debt to GDP	22.4%*	19.9%*	19%*
Debt payments (premiums + interest)	254.3*	269.4*	361.1*
Percentage of debt payments from the state budget	2.26%	2.75%	3.5%
International FX reserves to total external debt	80%*	68.7%*	63.4%
<p>Sources: 1. * World Bank 2021 International Debt Statistics Country Tables: Yemen, Rep /https://datatopics.worldbank.org/debt/ids/countryanalytical/YEM https://datatopics.worldbank.org/debt/ids/countryanalytical/YEMhttps://datatopics.worldbank.org/debt/ids/countryanalytical/YEM 2- **Government Financial Statistics Bulletin, Yemeni Ministry of Finance, Issue 57 - Q3 2014. 3-***Annual statistics Book 2014, Central Bureau of Statistics, Yemeni Ministry of Planning and International Cooperation.</p>			

External debt slightly rose during this period, despite the decline in the value of long-term external debt.

The number of loans granted to Yemen was 621, distributed as follows:

Table 2 Ratio and number of loans taken by Yemen before 2015

Lenders	Number of loans	The percentage of loans from total Yemeni debt
International Institutions	191	30%
Funds, regional organizations and Arab countries	241	31.7%
European countries and the United States	108	16.9%
Asian Countries	37	4.5%
Funds	22	8%
Export loans	11	---
Private loans	11	---
Source: Government Financial Statistics Bulletin, Yemeni Ministry of Finance, Issue 57 - Q3 2014, Page 8.		

Although Yemen's external debt in 2014 stood at \$7.4 billion, the remaining unused loans amounted to \$2.18 billion, or 29.36%, a significant percentage.⁵

During this period, the debt to GDP ratio oscillated between 22% in 2012 and 19% in 2014, which was still safe⁶. The percentage of debt payments compared to the general budget did not exceed 3.5% despite its continued rise.

⁵ *ibid.*

⁶ Benedict Clemens, Reina Petcharia, Tuan Kwok Nuen, Do Debt Relief Drive Growth in The Vieira Countries, IMF, Economic Issues, 2005, Page 6.

During this period, Yemen's economy, one of the poorest in the region, tried to ensure financial stability, with relative debt stability, despite declining external foreign exchange reserves and rising domestic public debt to cover a growing fiscal deficit, due to rising government spending.

Yemen's economic situation after 2015

Since 2015, Yemen has been experiencing a civil war that has weakened the economy, undermined social cohesion and state foundations. The government has become unable to provide services, safeguard citizen's rights, meet financial requirements and mobilize resources in a context marked by the rapid collapse of the currency and the deterioration of productive sectors.

By the end of 2015, about a quarter of businesses and investment firms went bankrupt, while oil and natural gas- which represent 85% of exports- collapsed. This caused an acute depletion of Yemen's foreign exchange reserves. As a result, imports halved amid rising difficulties in financial transfers and import payments through the Central Bank and the surge of the informal foreign exchange market. Meanwhile, GDP continued to decline, contracting by 28% in 2015, -9.8% in 2016 and -7.5% in 2017, as the government failed to pay employees, worsening unemployment and income loss. During the same period, the number of people in need of assistance and protection rose to 20.7 million and the number of citizens in need of humanitarian assistance increased to 12.1 million people. The number of the internally displaced due to the war exceeded 4 million⁷.

⁷ report United Nations Office for the Coordination of Humanitarian Affairs Ocha. – Issued november 6, 2021

The war has destroyed hundreds of schools in Yemen and more than 1,500 schools have been damaged by air strikes or bombings. More than half of all teaching staff have not been paid since 2016⁸. Nearly 36% of girls and 24% of boys dropped out of school⁹.

Yemen's trade deficit widened to 26% of GDP in 2018, negatively affecting the value of the national currency against foreign currencies¹⁰.

According to the UN Office of Humanitarian Coordination, Yemen is experiencing the worst humanitarian crisis in the world due to the war ¹¹ that has exposed 10 million Yemenis to hunger in a context of exacerbating food insecurity across the country. Meanwhile, health system has collapsed and the number of displaced people rose to 3.65 million, most of them unassisted.

The purchasing power weakened and the foreign exchange reserve further shrunk on the back of an 80% decline in remittances by Yemenis abroad in 2020, following the outbreak of the global Covid-19 pandemic, according to Oxfam estimates. In 2019 remittances amounted to \$3.8 billion, key to assisting 80% of the population .

Hundreds of thousands of Yemeni workers lost their jobs. Available figures show that unemployment increased during the war from 56% to nearly 80%.

From 2015 to 2021, the internationally recognized government prepared only one general budget for 2019. At the beginning of that year, the government approved an estimated budget

⁸ Humanitarian Response Plan Jan. –December 2019, UN Office for the Coordination of Humanitarian Affairs, OCHA, February 2019 page 6.

⁹ Development Information Center (Sustainability) <https://dmcyemen.com>

¹⁰ Annual Report 2016-2017-2018, Central Bank of Yemen, page 15.

¹¹ Yemeni private sector ... Between responsibility Social and accountability, Yahya Saleh Mohsen, published research, page 4.

totaling \$2.159 billion and projected a fiscal deficit of 30%. Revenue forecast was set at \$1.511 billion, of which wages and staff salaries amounted to 80% of state revenue, or approximately 57% of the overall budget for the whole year¹².

TABLE 3 YEMEN'S ECONOMIC INDICATORS FOR 2016-2020

	2016	2017
GDP (Millions of dollars)	28,404	21,751
GDP growth rate	23,4-	7,97
General revenue and grants (billion riyals)	672.3	349
Spending (billion riyals)	1428.6	839.8
Fiscal deficit	756.3	490.8
Fiscal deficit ratio	52.9	58.4
*Long-term external debt	6322	6316
*External debt + IMF credit	7062.9	7193
Ratio of external debt to GDP	24. 86	33

¹² report Indicators Economic 2020- Chapter Forced For Yemen Economically-center Studies and the media Economic- team Reforms Economic – Yemen – page number 8.

Sources

1- Central Bank Annual Reports for 2016-2017-2018-2020

2. *World Bank data

<https://datatopics.worldbank.org/debt/ids/countryanalytical/YEM><https://datatopics.worldbank.org/debt/ids/countryanalytical/YEM>

From 2015 to the beginning of 2020, Yemen did not pay any debt installments, and there was only one budget during

The table above shows the scale of the deterioration of Yemen's economic indicators, which exacerbated the fiscal deficit and bolstered external debt as a proportion of a severely-contracting GDP.

	Civilians	Army and Security	Total cost
Budget 2014	546,873	430,212	977,085
2018 expenses	271,064	588,181	*829,245
Budget 2019	694,896	528,629	1,223,525

Source: Inflation beyond financial capacity and the need to reform public sector salary expenditures, Sana'a Center for Studies, policy paper published on September 23, 2019, page 5
*This figure is lower compared to 2014 because the government paid only 51% of civil servants for 2018.

Both monetary and fiscal policies define the economic features of any country. The central bank is in charge of the monetary policy while the finance ministry takes care of the fiscal policy.

Yemeni central bank

During the war that broke out in 2015, the Central Bank of Yemen became at the heart of the conflict between the two warring parties. The central bank was operating in the Yemeni capital Sanaa until the President of the Republic decided in 2016 to move it to Aden, citing several reasons, including preventing the Houthis from taking hold of foreign exchange reserves to

finance their war. Reserves have actually collapsed from \$4.2 billion in March 2014 to less than \$1.1 billion in June 2016. During the same period, the local currency depreciated against the dollar from 215 riyals to 315 riyals. At the same time, the central bank in Sanaa printed 400 billion riyals without cash cover. Under pressure from the Houthis, the central bank in Sanaa issued government bonds and sold treasury bills to banks and local investors in exchange for an interest rate of up to 16%, which is an excessively expensive rate that weighed on government revenue and investments and hurt the economy at large. In addition, the Houthis failed to pay two-thirds of public sector salaries since October 2016.¹³

Yemeni finance ministry

Due to the war and the transfer of the headquarters of the Yemeni government to the interim capital Aden, the performance of the government has been severely disrupted and this has impacted the ministry of finance in particular, which is one of the most important governmental departments. For instance, from 2016 to 2020, the government announced only one general budget for 2019.

The ministry's capacity to mobilize resources to manage state affairs and allocate salaries for civil servants weakened for several reasons mainly: the steep drop in oil revenue as a result of the fall of Yemen's production from 190,000 barrels in 2013 to 110,000 barrels in 2021¹⁴. Meanwhile, many provinces stopped sending state resources to the Central Bank of Yemen, including those under the control of the legitimate government. Tax collection has been affected by leaks and poor methods. Yemeni gas exports, which used to generate between 700

¹³ What does it mean to move the Central Bank of Yemen from Sana'A to Aden – Al Arabiya channel website 19/9/2016.

¹⁴ Indicators Promising – happy Solomon Deacons – magazine Oil And minerals. – Number 47 February 2021 page number 26.

and 800 million dollars annually, were halted as a result of the conversion of the Balhaf export facility to a military headquarters of UAE forces.

The abovementioned details show that Yemen's economic problems worsened compared to the pre-2015 period as a result of the war. The division of financial and monetary authorities and political instability affected monetary stability and consequently hit citizens standards of living, in a context marked by a lack of public services and poor infrastructure. Available economic facilities were destroyed and many firms halted activity leading to soaring unemployment and inflation, as well as a suspension of the payment of salaries to many government employees.

Chapter 2

Yemen's external debt

Under the ongoing difficult economic conditions in Yemen and the collapse of revenue sources key to government finances, such as gas sales, tax collection and telecommunications revenue, the problem of Yemeni debt became one of the biggest concerns of the government, especially in terms of external debt payments, amid a depletion of hard currency reserves.

War triggered a division of financial and monetary authorities between Sanaa and Aden, which caused administrative and regulatory disruptions especially in the monetary field, as indicated in the annual report issued by the central bank of Yemen in Aden in 2020.

Financial and monetary authorities in areas of government have been struggling to address the economic malaise, including debt. The International Monetary Fund (IMF) stated that external public debt fell by \$52 million, or 0.8% in 2020, compared to 2019 to stand at \$6.665 billion, or 35.2% of the GDP in 2020 compared to 29.8% in 2019. The international development body's debt in 2020 decreased by \$83.3 million (premiums and interest)¹⁵ to \$1.421 million.¹⁶

¹⁵ The International Development Authority (IDA) has called on the government to pay debt installments and interest from 2020.

¹⁶ Annual Report 2020, Central Bank of Yemen Aden, page 44.

TABLE 5 YEMEN'S FOREIGN DEBT IN 2016-2020 (MILLIONS OF DOLLARS)

	2016	2017	2018	2019	2020
Total debt balance	7062.9	7193	7036	7055	7120
IMF loans	497	507	469	440	410
Long-term external debt	6322	6316	6205	6188	6251
Short-term external debt	243	368	361	426	459
Payments (long-term)	24.2	4	19.4	65.5	37.6
Main repayment premiums (long-term)	98	66.3	71.1	72.4	75.2
Interest payments (long-term)	30.9	12.6	12.8	11.6	10.9
External debt to exports	386.2%	738.2%	----	----	----
External debt to GDP income	**22.9%	26.9%	30%	--	--
Source: World Bank https://datatopics.worldbank.org/debt/ids/countryanalytical/YEM Bank https://datatopics.worldbank.org/debt/ids/countryanalytical/YEM https://datatopics.worldbank.org/debt/ids/countryanalytical/YEM Date of october 16, 2020					

Table 5 shows discrepancies in data between the World Bank, the Central Bank and the IMF in 2020. This indicates a lack of accurate data concerning Yemen's external debt, which is expected to have fallen to \$6.665 billion in 2020. The World Bank noted in its report that Yemen's long-term debt in the same year amounted to \$6.251 million.

It is noteworthy to mention the impact of debt payments on draining foreign exchange reserves to meet import needs in terms of food notably in a context complicated by the rapid collapse of the local currency (Rial) and the difficult access to hard currency.

TABLE 6 YEMEN'S EXTERNAL DEBT BALANCE BY CREDITOR TYPE DURING 2016-2020

(MILLIONS OF DOLLARS)

	2016	2017	2018	2019	2020
Long-term external debt	6322	6316	6205	6188	6251
Official creditors	6322	6316	6205	6188	6251
Multilateral	3039	3110	3003	2986	3026
bilateral	3283	3206	3021	3201	3224
Private creditors	--	--	--	--	--
Source: World Bank https://datatopics.worldbank.org/debt/ids/countryanalytical/YEM https://datatopics.worldbank.org/debt/ids/countryanalytical/YEM https://datatopics.worldbank.org/debt/ids/countryanalytical/YEM Date of october 16, 2020.					

External debt structure

International financial institutions hold 49% of overall Yemeni external debt followed by other countries with 29% and the Paris Club with 22%, according to a Yemeni planning ministry publication.

Yemen's creditors include:¹⁷

- **Multilateral:**

1. International Development Association, World Bank;
2. IMF;
3. Arab Monetary Fund;
4. Arab Fund for Economic and Social Development;
5. International Fund for Agricultural Development;
6. OPEC;
7. Islamic Development Bank;
8. European Economic Community;
9. **Paris Club countries:** Russia, Japan, USA, Italy, Spain, Denmark, France, Netherlands, Federal Germany.
10. **Non-Members of the Paris Club:** Saudi Fund, Kuwait Development Fund, Iraqi Fund, South Korea.¹⁸
11. **Others:** Kuwait, OAPEC, Libya, China.

¹⁷ Shoaib Ali Abdullah – Undersecretary of the Yemeni Ministry of Planning and International Cooperation – Head of the Technical Office - Ministry of Planning and International Cooperation Data – During an official meeting with the researcher to collect research data.

¹⁸ Neither Korean has been identified.

The field research showed the following conclusions¹⁹:

The Central Bank:

- The Central Bank lacks data on Yemen's debt and total external debt, due to the non-implementation of the DMFAS program²⁰;
- Since its transfer to Aden, the Central Bank has not made any debt payment, except to the International Development Association of the World Bank, at the request of the Ministries of Finance and Planning, and we do not know the size of the total debt;
- Efforts are ongoing to introduce the DMFAS program in the beginning of the year;
- The planning ministry has all the information on Yemen's external debt.

Through field research at the ministry of planning ²¹, we reached the following findings:

- 1- All loans were suspended by lenders in 2015 and resumed only at the beginning of 2018;
- 2- Lenders have been contacted to reallocate loans²², in new projects as a result of war conditions;
- 3- Yemen made no loan payments in 2020 except to IDA (International Development Association). These payments, which are a premium and interest on debt for the period from September 1, 2020 to December 15, 2020, amounted to \$36,066,330, with total payments (from September 1, 2020 to December 15, 2021) expected to stand at \$126,789,100;

¹⁹ take place Meeting with Professor Light manager Relations Foreign Affairs in Bank Central Right in Aden in history 20 October 2021

²⁰ The DMFAS program is a debt management and financial analysis system developed by UNCTAD to enhance the debt management capabilities of developing countries.

²¹ The interview was with Shoaib Ali Abdullah, head of the technical office and undersecretary of the Ministry of Planning and International Cooperation October 25, 2021.

²² Loan reallocation: Redirecting loans to new projects other than those the loan was first intended for.

- 4- Many entities have given Yemen an additional period to pay debt while continuing the funding of the country until 2021, such as the Arab Fund. After that period, Yemen commits to making loan payments;
- 5- A large part of the World Bank's funding in Yemen takes the form of grants such as social benefit payments;
- 6- Saudi Arabia has converted a part of its debt to Yemen into grants;
- 7- When the Central Bank moved from Sanaa to Adin, loan data and value were not available, prompting the ministry to rely on data from 2014-2015. Countries and creditors were contacted to determine the origin of the debt and payment details, especially as the Central Bank of Sanaa refused to offer data to the recognized government;
- 8- The number of countries and entities that lent Yemen reached 25 with a total debt worth six billion dollars. These lending parties were contacted as part of an effort to determine the loans offered by each country or institution and payment details as well as termination. The operation also aimed to find repayments made between 2015 and 2017 (with the aim of updating the data) ²³. Only 15 of these lenders responded, confirming that Yemen owed them by the beginning of 2021, \$3.809 billion. Other lenders did not respond. Therefore data relating to their loans is lacking as explained in the following table:

²³ It is the period between the start of the war and the transfer of the Central Bank of Yemen from Sana'a to Aden.

TABLE 7 TOTAL DEBT INSTALLED IN 2021, CONFIRMED BY 15 DONOR COUNTRIES**COMPARED TO TOTAL PROJECTED DEBT ACCORDING TO DATA FROM 2014-2015-2016-****2017-2018**

CREDITOR	Authorities data, 2019 Mission					Authorities data, 2021 Mission
	OUTSTANDING INCL ARREARS TOTAL **					
	2014	2015	2016	2017	2018	Latest; 2021
PARIS CLUB COUNTRIES	1,553.83	1,513.69	1,533.74	1,571.57	1,579.12	436.32
RUSSIA	1,121.40	1,096.86	1,109.87	1,122.51	1,128.65	412.30
JAPAN	200.64	197.63	205.05	214.09	214.57	0.23
UNITED STATES	95.69	95.13	96.81	99.65	102.16	9.05
FRANCE	71.46	63.76	62.10	72.24	71.04	4.52
ITALY	42.71	40.28	39.59	42.46	42.26	10.21
SPAIN	17.11	16.05	16.17	16.28	16.33	
DENMARK	2.06	1.80	1.69	1.70	1.71	
NETHERLANDS	1.68	1.31	1.69	1.70	1.46	
GERMANY	1.09	0.85	0.77	0.93	0.94	
NON-PARIS CLUB	1,519.04	1,490.79	1,496.70	1,516.85	1,530.50	384.86

COUNTRIES						
SAUDI A.FUND	1,339.57	1,328.15	1,335.23	1,349.27	1,363.24	
KUWAIT DEVL. FUND	140.06	127.77	127.49	130.23	130.76	273.70
IRAQI D. FUND	8.19	6.99	6.79	6.79	6.79	83.80
KOREA	31.21	27.88	27.18	30.56	29.70	27.36
MULTILATERAL	3,672.03	3,371.16	3,232.82	3,324.43	3,232.25	2,881.83
IDA	1,910.29	1,780.37	1,667.92	1,694.81	1,613.43	1,449.65
AMF	384.09	267.54	256.00	274.06	269.39	289.32
IMF	209.18	200.12	184.79	177.18	155.39	
AFESD	884.82	850.25	848.11	883.94	896.90	1,063.99
IFAD	127.92	124.46	120.48	128.66	126.74	27.91
OPEC	32.90	29.42	28.02	28.64	29.19	15.40
ISLMIC DEV. BANK	120.49	116.95	125.72	135.61	139.81	35.58
EEC	2.35	2.06	1.80	1.52	1.40	
OTHERS	521.51	508.81	505.54	418.64	422.66	105.99
KUWAIT (deposit)	196.94	200.83	207.17	215.62	221.96	

OAPEC	28.36	28.36	28.36	28.36	28.36	
Libya	2.83	2.83	2.83	2.83	2.83	
China	293.38	276.79	267.18	171.83	169.51	105.99
Grand TOTAL	7,266.41	6,884.45	6,768.80	6,831.49	6,764.54	3,809.00

Source: Ministry of Planning and International Cooperation - Aden.

- Blank boxes are for missing or unconfirmed data.

9- Some of the loans benefiting services in the areas controlled by the de facto government in Sanaa are still being implemented with the approval and strict monitoring of the legitimate government in Aden;

10- The World Bank set a condition on the reactivation of loans to facilitate overdue loan payments and continued receiving funds;

11- The World Bank has referred the implementation of its financed projects to a third party instead of the Yemeni government (such as the United Nations), (which shows that there are no other conditions from the World Bank for Yemen with regard to the redeployment of loans);

12- The planning ministry is not aware of many other loans which are outside its realm including those relating to military procurement and the ministry of defense;

13- The DMFAS Program (UN Debt Management and Financial Statement Analysis Program) is intended to help government stakeholders (the Central Bank of Yemen, the Ministry of Planning and International Cooperation and the Ministry of Finance) identify and follow up on the debt, making it easier to develop a plan to address these loans;

14- Yemen is the first war-torn country in which the World Bank is offering loans;

15- Yemen has not requested any new loans since 2015. But, it has asked to resume tapping into the previously allocated loans;

16- There is no information on the volume of debt payments in Yemen from 2015 to 2017 after the central bank move from Sanaa to Aden.

In another field research at the finance ministry,²⁴ it was clear that the ministry did not have aggregate information on the total debt. The International Monetary Fund (IMF) imposed a package of conditions on Yemen, most notably: reducing the budget deficit, increasing state revenue and reducing spending, in addition to adopting the treasury system and preparing an annual public budget or annual spending report.

The field research demonstrated that authorities were still in the process of establishing a debt tracking system to determine the exact size of public debt and address a lack of data and debt coordination between the central bank the ministries in charge of planning and finance on debt.

The question to be answered now is to what extent Yemeni citizens have benefited or been affected by the external debt and how far have these external financing achieved their goals in Yemen?

In a context marked by the multi-pronged crisis, external financing- both international grants and loans- has become the only source of funding for public services in all sectors and²⁵ has alleviated Yemen's difficult economic situation despite its inadequacy, given the scale of the deteriorating economic conditions.

Table 8 Total loans in use until Dec. 31, 2017 by sectors in dollars

²⁴ The researcher visited Headquarters Ministry of Finance In the temporary capital Aden And sit down with Mr. Khalid Al-Houthiri, undersecretary of the Ministry of Finance On November 1, 2021

²⁵ Attached to the annexes is a table of lenders and sectors covered by these loans until 2017.

	Sector	Loan value	Used value	Remaining	rate of the used loan amount
1	Agriculture and irrigation	36,550,681.31	3,337,761.60	33,212,919.71	9.1%
2	Fisheries	14,077,275.96	309,555.22	13,767,720.74	2.2%
3	Electricity	848,778,750.59	438,951,616.27	409,827,134.32	51.7%
4	Water and sanitation	260,756,617.17	96,231,385.59	164,525,231.59	36.9%
5	Education and scientific research:				
	Technical education and vocational training	132,774,104.47	52,833,874.44	79,940,230.03	39.8%
	B. Higher education	82,714,738.20	13,379,727.72	69,335,010.48	16.2%
6	Health	49,872,201.45	0.00	49,872,201.45	0.0%
7	Construction: Roads	897,092,662.99	385,195,214.66	511,897,448.33	42.9%
	City infrastructure	308,043,921.10	105,898,964.66	202,144,956.44	34.4%
8	transportation	217,949,354.93	3,577.28	217,945,777.65	0.0%
9	Safety nets and poverty alleviation				
	Public works	122,048,807.44	15,472,488.90	106,576,318.54	12.7%
	B. Social Fund for Development	178,259,006.81	116,961,267.20	61,297,739.61	65.6%
	C. Economic Opportunities Fund	27,268,911.24	3,887,615.22	23,381,296.02	14.3%
10	Financial, administrative and other reform	95,739,202.55	19,868,118.45	75,871,084.10	20.8%
	Total	3,271,926,236.21	1,252,331,167.21	2,019,595,069.00	38.3%

Source: Yemeni Ministry of Planning and International Cooperation - Technical Office.

The table above shows that most loans went to the construction sector, followed by the electricity sector, safety nets, poverty alleviation, water and sanitation and education and scientific research.

According to the ministry of planning, a large portion of these loans have been redirected in line with the latest development that resulted from the war, in order to maximize the benefits on citizens. Accordingly, these funds have been allocated to meet urgent and vital needs, particularly in the health, education, water and electricity sectors.

Nevertheless, there is still a huge gap between the funding that has been received and the required financing to prop up the economy, resume public services, upgrade infrastructure and achieve economic recovery to the best interests of Yemeni citizens.

With regard to transparency and accountability at the stages of negotiations, and loan acceptance and use, it is well known that these loans are separately negotiated by the ministries of planning and finance on behalf of the government and in line with a pre-established plan with clear goals. The loan hinges on the approval of the house of representatives.

However, the civil society is excluded from this loan process including at the planning stage- which includes defining the goals sought from each loan- or the negotiations process.

Yemen is experiencing a real debt problem, although the debt volume is not large, compared to other countries. For Yemen, though, it is a real problem, given the conditions of the war, the decline in growth rates, the contraction of GDP and the continued economic malaise.

Chapter 3

The Impact of the debt problem on the Yemeni people

The UN Commission on Human Rights has often warned of the severe repercussions of excessive foreign debt on human rights, especially in poor countries. It alerted about the impact both in terms of economic, social and cultural rights. These consequences prompted both the IMF and the World Bank to launch an initiative to ease foreign debt on poor countries (HIPC) in 1996.

In Yemen, the excessive debt burden led the government to default on its debt servicing obligations leading to loan suspension and the imposition of higher interest rates. The impact was as follows:

- 1- The fiscal deficit increased, as debt payments rose from \$123 million to \$406 million²⁶ per year, representing between 7.1% and 23.6% of revenue in 2019 (the last year in which a budget was prepared) and between 4% and 13.4% % of the total budget allocations (according to the 2019 budget), which is posted a deficit of 45.6%;
- 2- Yemen's external debt accounted for nearly 37% of GDP. Since the bank moved its headquarters to Aden, domestic debt hit 3009 billion rials (\$4.4 billion according to the exchange rate of 2020). This has led Yemen to eat into its foreign exchange

²⁶ According to the number of claimants to pay the installments - where not all entities have yet been required to make payments - the undersecretary of the Ministry of Planning and the director of the technical office of the Yemeni Ministry of Planning and International Cooperation.

reserves which dropped to \$937 million by the end of 2020, enough to cover Yemen's imports for 1.3 months only²⁷;

- 3- Inflation worsened and the collapse of household purchasing power sped up;
- 4- Poverty has increased and the food crisis was exacerbated, hitting mostly poor households the displaced and²⁸ vulnerable groups, amid a currency collapse;
- 5- More than 2 million students in Yemen have dropped out of school²⁹;
- 6- A surge in migration;
- 7- The banking sector has been unable to perform its functions;
- 8- Civil servants have yet to receive their salaries in areas under Houthi control;
- 9- The collapse of the health and education sectors in houthi-controlled areas (only half of the health facilities are still operating in the country³⁰, while the war has damaged or destroyed more than 2,500 schools across the country)³¹;
- 10- Inadequate electricity supply;

The above-mentioned repercussions show that Yemen needs huge funding to address this multi-dimensional disaster (estimated by the United Nations at \$4.2 billion -³² more than 80% of the population needs some form of assistance). Meanwhile, Yemen's creditors³³ kept urging the government to pay debt and interest that has been accumulated for years. In this respect, the excessive Yemeni external debt will further exacerbate the humanitarian crisis and will perpetuate the economic disaster against the backdrop of a collapse in several economic sectors and services.

²⁷ Economic and Monetary Developments Bulletin –March 2021, Central Bank of Yemen – Eden, page 31.

²⁸ Website of the United Nations Office for the Coordination of Humanitarian Affairs – Ocha, <https://reports.unocha.org/>

²⁹ UNICEF website <https://www.unicef.org/>

³⁰ United Nations Population Fund <https://arabstates.unfpa.org>

³¹ Xinhua News Agency, Visit Date November 15, 2021 <http://arabic.news.cn/>

³² Website of the United Nations Office for the Coordination of Humanitarian Affairs – Ocha, <https://reports.unocha.org/> - 87% of the funding has died.

³³ United Nations Population Fund <https://arabstates.unfpa.org>

Chapter 4

Measures proposed by various parties to address Yemen's external debt

The previous chapters shed light on the economic situation in Yemen, especially in areas controlled by the internationally recognized government, which explains the scale of Yemen's external debt and its repercussions. The present chapter will focus on measures to address Yemen's external debt problem, starting with an analysis and assessment of the government plans to overcome the debt crisis as well as Yemen's borrowing policies and debt-related mechanisms. Special attention will also be given to programs adopted by lenders, including the International Monetary Fund (IMF) and the World Bank in relation to Yemen's external debt in line with the new social contracts³⁴.

I: An analysis of the government's financial plan to overcome the external debt crisis and assess its borrowing policies and processing mechanisms:

As mentioned earlier, the internationally recognized Yemeni government does not have any actions plans or programs to address the debt crisis and external loans due to technical difficulties (as a result of the relocation of the government headquarters from Sanaa to Aden and the accompanying confusion and loss of accurate information on debt). The government is also facing financial and economic difficulties. This has made the elaboration of a government action plan to address the problem of external debt not possible at the moment. However, the government implemented some corrective measures, including the formation of a negotiations team from the ministry of planning to review and update the data on loans, lenders, payments and projects funded by external borrowing.

³⁴ Hold Social he idea Return into Greeks ancients And he means In it Agreement Implicit between Individuals society around Select Relationship with Some Some and with State which Live in it.

It has also begun to set priorities for borrowing, as it begun to negotiate the redirection of some loans and resumed the process to reuse other funds that have been suspended due to the war. It has also launched preparations to implement the DMFAS debt control system at the central bank, and issued special decisions to prevent the issuance of cash without coverage. All of these measures came late but they are still a good start to help address Yemen's heavy foreign debt and mitigate its impact with a view of ultimately preparing a debt payment plan.

Although yemen's economic crisis will affect any action plan relating to foreign debt management, the country made commitments in 2020 to pay its debt installment and interest to the International Development Association. It has promised to pay debt installment to the Kuwaiti Fund starting in 2022, in a move that shows the government's willingness to finding solutions and plans to end the foreign debt problem, including at the longer term, in cooperation with lenders.

II- Assessment of programs adopted by lenders, including the International Monetary Fund (IMF) and the World Bank concerning Yemen's external debt crisis:

Over the past decades, measures adopted by the International Monetary Fund (IMF) and the World Bank in many countries have been similar in nature and trends, dominated by an emphasis on austerity (in order to ensure the government's ability to pay debt). These financial institutions urged governments to increase and diversify taxes, reduce public spending and the external debt burden, and curb inflation to address structural imbalances, both the fiscal deficit and trade deficits. The goal was to achieve macroeconomic stability, in addition to proceeding to currency liberalization and restructuring policies by privatizing public sector enterprises and amending legislation to reduce tariffs and simplify customs procedures. They also emphasized on trade liberalization and providing more concessions and facilities for domestic and foreign investors...

These economic policies led to almost identical results in most countries, namely averting economic collapse, reducing inflation and stabilizing the currency, and reducing budget deficits. But there are direct and indirect negative effects and consequences of these reforms, especially at the economic and social levels. In this respect, we can cite the condition to reduce government spending on community sectors and services, austerity policies, fewer government jobs³⁵ and reduced subsidies on goods.

The IMF and the World Bank strategies have shifted to emphasizing on social spending as part of the new social contract adopted by the IMF and the World Bank, particularly in low-income and developing countries, with a focus on safety nets including social insurance, public spending on health and education and the creation of broad partnerships with the local community. This had a beneficial impact on Yemen's management of its foreign debt crisis.

Accordingly, these financial institutions have funded projects such as those aiming to address the Covid-19 pandemic and upgrade hospitals and safety nets. The project portfolio of international financial institutions cover 9 ongoing projects: 1 The emergency crisis response worth \$848.58 million; and 2- the emergency health and nutrition project in Yemen worth \$638 million; 3- the emergency integrated urban services project worth \$150 million; 4- the emergency electricity supply project at a cost of \$50 million; and 5- Covid-19 pandemic response project in Yemen, worth \$26.9 million. Additional projects include: 6- fighting desert locust swarm (\$25 million); 7 strengthening emergency social protection and responding to the Covid-19 (\$204 million); 8- \$100 million for fighting school drop outs; and 9- the food security response project in Yemen and improved resilience worth \$100 million. ³⁶ (It should

³⁵ Yahya Saleh Mohsen, IMF reform policies and their effects... The Supposed Role of Civil Society, Yemeni Observatory for Human Rights, p. 6

³⁶ World Bank – Yemen <https://www.albankaldawli.org/ar/country/yemen/overview>

be noted that these are all projects conducted in partnership with the local community to directly benefit citizens.)

For its part, the International Monetary Fund (IMF) deposited \$656 million with the Central Bank of Yemen's under special drawing rights that are offered to a number of countries. That amount is equivalent to 70% of Yemen's foreign exchange reserves (special drawing rights allocations will boost Yemen's hard currency reserves by more than 70%). The IMF has indicated that it has provided the amount in support of Yemen, as a country in dire need and in deep crisis, including the urgent food and medical needs of the population.³⁷

The strategy of these two institutions in lending to Yemen is therefore in line with their new strategy and with the new social contract they have called for.

The conditions and terms governing the provision of credit to Yemen by the IMF and the World Bank are relatively different from those required for other countries. It is worth mentioning that this is the first time that the World Bank and the IMF continue to grant financing to a country experiencing war conditions. Their terms have become more flexible, as they continue to urge transparency, good governance and partnership with the civil society. The World Bank has actually picked civil society organizations in order to carry out its humanitarian and development actions in Yemen.

Compared to the IMF and the World Bank's terms in Egypt, we find that the two financial institutions gave Yemen higher credit facilities. The IMF has offered financial assistance to low-income countries in 2010 and introduced facilities supported by the Poverty Reduction and Growth Trust³⁸.

³⁷ box Cash International: Yemen Happens on 655 million dollar from rights lugging SpecialEast Bloomberg Economic Website, <https://www.asharqbusiness.com/article/23085>

³⁸ IMF lending programmes – Union of Arab Banks.

In this respect, both the IMF and the World Bank have taken into account the economic or political turmoil in Yemen and both institutions have expressed interest in social spending in vital fields such as health and education across the conflict-stricken country. Financing also targeted the training of government staff in the fields of financial and monetary policies. Such actions contributed to building bridges with the civil society. However, despite the fact that Yemen is an economically instable country with huge fiscal deficits and despite being eligible to the Heavily Indebted Poor Countries Initiative, the two institutions asked Yemen to pay debt installments, which would add a strain to the state budget in a move that runs counter to the goals of the two institutions in assisting countries.

III- Proposals to address Yemen's external debt:

The success of economic reforms in any country requires the participation of local authorities, civil society organizations and the private sector. The concept of community partnership must incorporate all social categories during the planning, implementation and follow-up stages, especially in countries suffering from endemic economic problems. Such a participation- in whatever form- is a safeguard for the success of any policies, measures or economic plans. Therefore, proposals can be broken down into different measures to address and resolve the debt burden in different sectors as follow:

1- Role of the government in addressing Yemen's debt problem:

The Yemeni government does not have credit owed to the private sector or international commercial banks. This means Yemen has maneuverability and a flexible margin to negotiate, although part of this debt is the result of unpaid arms deals that are not yet determined). But the fact that 22% of Yemen's debt is controlled by the Paris Club is a good sign, especially

after the Paris Club countries agreed to cancel \$14 billion Sudan's international debt³⁹, which gives optimism for Yemen in its debt relief quest, considering that Yemen faces dire economic conditions compared with Sudan.

Therefore, the government should take several steps to address Yemen's external debt problem and mitigate its impact, starting with the following:

- 1- Complete the implementation of the DMFAS program, to create a reliable database, as a starting point for preparing appropriate action plans to address the debt problem;
- 2- Negotiating debt rescheduling with lenders, while seeking relief from a part of the external debt in view of the fragile economic situation in Yemen and its membership in the Heavily Indebted Poor Countries Initiative;
- 3- Negotiate with lenders the transfer of a part of their loans to development assistance as a contribution to Yemen's economic recovery;
- 4- Negotiate debt relief with the Arab coalition countries, as part of their economic support program;
- 5- Negotiate with lenders, who finance development and humanitarian programs in Yemen, the repayment of their loans or a part of them in the local currency in favour of financing the civil society's development and human projects within the country;
- 6- Preparing a governmental action plan to pay debt taking into account:
 - a) Inclusion of deadlines for government debt payment;
 - b) Supporting the local community in order to gather momentum to address the debt problem as a national issue whose treatment should stay consistent despite government change;

³⁹ Paris Club: \$14 billion in Sudan's debt written off, Russia Today news site, visit date December 6 https://arabic.rt.com/middle_east/1252258

- c) Determining the repayment methods and the economic sectors that will create the resources to repay the debt;
 - d) Acting to increase oil and gas exports. The two resources are controlled by the legitimate government and are key to ensuring the inflow of hard currency;
- 7- The state should prepare a clear plan for economic recovery and resource mobilization;
 - 8- Train a team specialized in debt negotiations consisting of officials from relevant institutions (central bank, ministry of finance and ministry of planning and international cooperation);
 - 9- Start saving a part of the revenue in hard currency to build steadily increasing hard currency reserves at the central bank to help alleviate the debt payment burden;

2- The role of donor countries in resolving Yemen's external debt problem:

In order to address Yemen's debt problem, lenders are expected to help take a package of measures aimed at mitigating the impact of foreign debt and help achieve economic reforms in Yemen. Some of the most important measures include:

- 1- Negotiating the extension of debt repayment periods, while taking into consideration the economic and political conditions and the war in Yemen;
- 2- Grant Yemen conditional and partial debt relief provided the government commits to meet a set of conditions, including ensuring good governance, transparency and accountability mechanisms and involving civil society and local authorities.
- 3- Negotiate the conversion of a part of the loans into grants benefiting most affected sectors by the war (health and education).

3- The role of the Yemeni civil society organizations in addressing the debt problem:

Civil society organizations are more independent and agile, although they are considered the least powerful due to the war circumstances in the country. These organizations have the ability to conduct studies and assess the situation more fairly, because they are free from political or tribal restrictions. Although the ongoing war has strained these organizations and limited their ability to move freely, they have recently been able to defy these obstacles and adapt to the situation, which has helped them gain momentum and a mobility despite the difficult circumstances. These organizations have proven ability to move across Yemen, both in areas controlled by the legitimate and the de-facto governments. This has further enhanced its ability to conduct comprehensive analyses of the situation.

Civil society organizations have, therefore, a huge responsibility in addressing the problem of external debt, notably by taking the following steps:

- 1- Putting pressure on the government to elaborate plans and deadlines to address the debt problem, while campaigning for a partnership covering the preparation, implementation and monitoring of these plans;
- 2- Develop mechanisms for community monitoring of governmental sectors with the aim of putting an end to the squandering public resources, mobilizing resources to finance development plans and alleviating the debt burden, while participating in the setting up of a plan for the mobilization and the development of resources;
- 3- Calling on international financial institutions and lenders to offer Yemen full or partial debt relief;
- 4- Take action to set up strict legal framework governing any future external and domestic borrowing in order to reduce excessive or unnecessary borrowing, while putting forward legal provisions for an effective partnership between the government and civil society;
- 5- Mobilize public support for any plans aimed at addressing the debt problem.

4- The role of international financial institutions in solving Yemen's external debt problem:

The World Bank and the International Monetary Fund (IMF) can contribute to solving Yemen's external debt problem through a series of measures aimed at mitigating the effects of external debt and finding capabilities to address the problem as well as spurring the reform momentum in Yemen.

These proposed measures can be summed up as follows:

1. Help the government develop a national plan to address the problem of external and domestic debt and develop an economic reform plan;
2. Help reduce the debt owed by Yemen to international financial institutions, by pushing for a full or partial external debt relief, conditioned on economic reforms, including the implementation of the treasury system, submitting an annual budget and reducing the fiscal deficit, in addition to observing transparency and good governance in the economic management of the state and community partnership.
3. Extend the debt grace period due to the conditions of war and economic deterioration;
4. Grant Yemen debt arrears relief starting from the outbreak of the war;
5. Reach out to other lenders to encourage them to provide debt relief and facilities to Yemen, as well as debt grace;
6. Encourage donor countries and institutions to provide development-oriented grants to Yemen while creating a partnership with the private sector, civil society organizations and local authorities;
7. Support the training of staff in public institutions that deal with economic policy, such as the ministry of finance and planning, the central bank and the central oversight and accounting authority, in order to contribute to the rehabilitation of these institutions.

These measures are designed to help resolve Yemen's external debt problem. But we must not lose sight of the fact that the ongoing conflict and divisions between the political and economic authorities in Yemen pose an obstacle to achieving the goals of international financial institutions. For instance, the central bank in Sanaa objected to the IMF decision to allow the central bank of Aden to use the special drawing rights. This means that the achievement and the success of these measures and treatments require the security and stability conditions.

Conclusion

Yemen has been hit by a worsening of economic malaise in a context marked by political conflict and war. Yemen's debt situation has deteriorated, especially after 2011, as it became excessive, adding a strain on the government budget and society. This external debt burden has undermined Yemen's ability to overcome the disastrous effects of the war and affected the country's ability to pay salaries and promote spending to develop key social services, such as education, health and public utilities.

A large part of Yemen's debt is made up of development debt, while a significant portion of its external debt aims to finance arms deals.

Saudi Arabia is Yemen's largest lending country holding 19% of the country's external debt, followed by Russia. The World Bank is Yemen's largest lender among financial institutions with nearly 21% of Yemen's external debt. International financial institutions provided 48% of Yemen's foreign debt, while countries outside Paris club offered 29% followed by the Paris Club with 22%. Yemen has not taken any loans from private sector.

Yemen has long-term debt and despite the context of war and political instability, the World Bank continued to invest in the country.

Although Yemen lacks an economic reform plan, it is negotiating with lenders to reschedule or re-allocate debt. But it has not elaborated a special plan to address the problem of external borrowing. The country is suffering from the exacerbation of the cost of domestic and external public debt, which has in part led to an unprecedented economic collapse.

Yemen's debt problem has been worsened after many lenders demanded the resumption of debt payments by the country, despite the war conditions, economic hurdles and the lack of economic vision among decision makers.

Taking into account the harsh conditions in Yemen, the World Bank and the International Monetary Fund (IMF) reduced lending conditions to the country, while redirecting the bulk of their funding to social protection and safety nets.

This has partly contributed to mitigating the impact of the economic collapse on citizens, although Yemen still needs greater funding as the conflict, war and economic collapse endure.

The war has hampered the ability of international financial institutions to reach the targeted areas and sectors. This void has been partly filled by civil society organizations.

The solution to Yemen's debt problem rests with all parties, including lenders- both countries and institutions. The Arab alliance countries are supposed to take a chunk in efforts to solve Yemen's debt problem, which also requires putting an end to the war and political divisions.