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# ECONOMIC RECOVERY & LIVELIHOODS PROGRAM (ERLP) - YEMEN QUARTERLY REPORT

FY2021 Quarter 3 April – June 2021

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## List of Acronyms

A2F	Access to Finance
ACAPS	The Assessment Capacities Project
ACH	Automated Clearing House
ACT	Aden Container Terminal
AEO	Authorized Economic Operator
AGT	Aden Gulf Terminal
AIS	Automated Identification System
AMELP	Activity Monitoring, Evaluation, and Learning Plan
AML	Anti-Money Laundering
AR	Advance Ruling
ATM	Automated Teller Machine
BCP	Border Crossing Points
BIS	Bank for International Settlement
BOD	Board of Directors
BoE	Bank of England
BOP	Balance of Payments
BSD	Bank Supervision Department
CAMELS	Capital Adequacy, Asset Quality, Management, Earnings, Liquidity, and Sensitivity
CAP	Credit Application Package
CB	Central Bank
CBY	Central Bank of Yemen
CCRT	Catastrophe Containment and Relief Trust
CD	Compact Disc
CDMRS	Commonwealth Debt Management & Reporting System
CFT	Counter Financing of Terrorism
CIT	Corporate Income tax
CNY	Chinese Yuan
COBIT	Control Objectives for Information Technology
CPI	Consumer Price Index
CRO	Chief Risk Officer
CY	Calendar Year

DFID	United Kingdom's Department for Foreign and International Development
DMFAS	Debt Management and Financial Analysis System
DSSI	Debt Service Suspension Initiative
DVD	Digital Video Disc
DWH	Data Warehouse System
ERLP	USAID's Economic Recovery and Livelihoods Program
ETL	Extraction Transformation and Loading
EU	European Union
EUR	Euro
FAL	Convention on Facilitation of International Maritime Traffic
FATF	Financial Action Task Force
FBRNY	Federal Reserve Bank of New York
FCDO	Foreign, Commonwealth & Development Office
FFS	Farmer Field Schools
FI	Financial Institution
FIU	Financial Intelligence Unit
FRM	Foreign Reserve Management
FTE	Full-time Equivalent
FUT	Factoring Underwriting Tool
FX	Foreign Exchange
FXRM	Foreign Exchange and Reserve Management
FY	Fiscal Year
GAC	Gulf Agency Company
GBP	British Pound
GDP	Gross Domestic Product
GOY	Government of Yemen
GRC	Governance, Risk Management, and Compliance
GST	Goods and Services Tax
HCCCEB	Higher Council of Community Colleges Executive Board
HDD	Hard Disk Drive
HR	Human Resources
HRM	Human Resource Management

IBM	Integrated Border Management
IBY	International Bank of Yemen
ICT	Information Communications Technology
ICU	Intensive Care Unit
IDA	International Development Association
IFI	International Financial Institution
IMF	International Monetary Fund
IMO	International Maritime Organization
IT	Information Technology
JC	Job Creation
KSA	Kingdom of Saudi Arabia
LOC	Letters of Credit
LOFF	List of Foreign Fisheries
LOP	Life of Project
LPG	Liquified Petroleum Gas
M2	Broad Money
MEG	USAID's Middle East Economic Growth Best Practices Program
MEL	Monitoring, Evaluation, and Learning
MENA	Middle East and North Africa
MFI	Monetary Financial Institution
MFS	Mobile Financial Services
MFW	Ministry of Fish Wealth
ML	Market Linkage
MMPA	Marine Mammal Protection Act
MoC	Ministry of Culture
MOCS	Ministry of Civil Service
MOF	Ministry of Finance
MOH	Ministry of Health
Moinfo	Ministry of Information
MOIT	Ministry of Industry and Trade
MOP	Ministry of Petroleum
MOPIC	Ministry of Planning and International Cooperation

MOU	Memorandum of Understanding
MOVET	Ministry of Vocation Education and Training
MSME	Micro, Small and Medium Enterprises
MSW	Maritime Single Window
MT	Metric Ton
MTC	Maritime Training Center
MTM	Mark-to-Market
NAF	National Fish Canning and Packing Factory
NCB	National Commercial Bank
NOA	Notification of Arrival
NOAA	US National Oceanic and Atmospheric Administration
NPC	National Payments Council
NPL	Non-Performing Loan
NTFC	National Trade Facilitation Committee
OMO	Open-Market Operation
OPEC	Organization of the Petroleum Exporting Countries
OTJ	On-the-job
P&L	Profit and Loss
PA	Partnership Agreement
PCA	Post-Clearance Audit
PCS	Port Community System
PERSGA	Regional Organization for Conservation of Environment of the Red Sea and Gulf of Aden
PFI	Partner Financial Institution
PITT	Performance Indicator Tracking Table
PIU	Project Implementation Unit
PM	Prime Minister
PPD	Plant Protection Department
PSA	Profit-Sharing Agreements
PSD	Payment System Department
PSP	Payment Service Provider
RBA	Risk Based Approach
RKC	WCO Revised Kyoto Convention



RM	Risk Management
ROYG	Republic of Yemen Government
RTGS	Real-Time Gross Settlement
SAFE	Safety Analysis and Functional Evaluation
SAR	Saudi Riyal
SDR	Special Drawing Rights
SL	Sustainable Livelihood
SME	Small and Medium Enterprises
SOP	Standard Operating Procedure
STP	Straight Through Processing
STR	Suspicious Transaction Report
SWIFT	Society for Worldwide Interbank Financial Telecommunication
TA	Technical Assistance
TANA	Technical Assistance Needs Assessment
TBT	Technical Barriers to Trade
TDW	Tons Deadweight
TEU	Twenty-foot Equivalent Unit
TF	Trade Facilitation
TFA	Trade Facilitation Agreement
TOR	Terms of Reference
TOS	Terminal Operating System
TOT	Training-of-Trainers
TP	Yemen Trade Portal
TPM	Third-Party Monitoring
TT	AEO Trusted Trader
TVET	Technical and Vocation Education and Training
UAE	United Arab Emirates
UK	United Kingdom
UKHO	United Kingdom Hydrographic Office
UKMTO	United Kingdom Marine Trade Operations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program

UNVIM	United Nations Verification and Inspection Mechanism for Yemen
U.S.	United States
USAID	United States Agency for International Development
USB	Universal Serial Bus
USD	United States Dollar
USG	United States Government
VAR	Value at Risk
VAT	Value-Added Tax
VC	Value Chain
VMT	Vehicle Mounted Terminal
VTMIS	Vessel Traffic Management Information System
VTS	Vessel Traffic Services
WB	World Bank
WCO	World Customs Organization
WFD	Workforce Development
WTO	World Trade Organization
YASPC	Yemen Arabian Sea Ports Corporation
YCA	Yemen Customs Authority
YCB	Yemen Commercial Bank
YCLE	Yemen Continuous Learning Evaluation
YER	Yemeni Rial
YESS	USAID's Yemen Economic Success and Stabilization Program
YKB	Yemen-Kuwait Bank
YSMO	Yemen Standardization and Metrology Organization

## EXECUTIVE SUMMARY

The Economic Recovery and Livelihoods Program (ERLP) supports Yemen's journey to self-reliance by focusing on improving critically important macroeconomic stabilization and private-sector competitiveness enhancement conditions and outcomes. ERLP advances best practices to lay the institutional groundwork for sound macro-financial policy and addresses trade barriers that limit the flow of commercial and humanitarian assistance. It promotes sustainable livelihoods, raises competitiveness, and generates employment opportunities in key high potential sectors of the economy. The technical assistance/training support provided through ERLP is tightly tailored to the socio-economic and institutional conditions in Yemen, a low-income, in-conflict country, amid an ongoing economic and humanitarian crisis. Additionally, Yemen now faces the challenge of dealing with the global COVID-19 pandemic without an adequate, well-functioning healthcare system or sufficient resources.

ERLP Component I seeks to improve macroeconomic management by strengthening the capacity of key Republic of Yemen Government (ROYG) institutions, including the Central Bank of Yemen (CBY), the Ministry of Finance (MOF), the Customs Authority, and the Port Authorities. It aims to restore macroeconomic stability, enhance fiscal management efficiency, and increase international trade flows. Specific focus is paid to developing and implementing cutting-edge reforms in monetary policy, fiscal policy, and trade facilitation.

Component II seeks to improve microeconomic conditions. It focuses on strengthening private sector performance, enhancing the competitiveness of small and medium-sized enterprises (SMEs) and smallholder farmers to create jobs, increase household incomes and improve living conditions. A thriving SME sector is crucial to Yemen's economic recovery as it holds the potential to create jobs and bring sustainable income to a significant portion of the population. Agriculture and fisheries also constitute a primary source of livelihoods employing over 50 percent of the rural workforce and accounting for more than 20 percent of GDP.

Gender-responsive analyses and approaches are integrated across ERLP components. The project prioritizes outreach to female producers, job seekers, and entrepreneurs, successfully leveraging greater economic opportunities through training, TA, and market linkages that work within cultural norms and push to create shifts in attitudes and practice based on win/wins for livelihoods and economic advancement. We will also create marketing strategies to promote women-led or owned businesses and work with Partner Financial Institutions to provide access to finance for women-owned businesses.

## COMPONENT I: IMPROVING MACRO-ECONOMIC FUNCTIONS OF KEY INSTITUTIONS

### MONETARY POLICY DEVELOPMENT AND IMPLEMENTATION

ERLP provides effective macroeconomic management advisory services within the current crisis environment. It undertakes coordinated action with the CBY to control monetary growth, stabilize price and exchange-rate expectations, enhance the functioning of the payments system, and improve financial sector regulatory oversight to help gradually restore confidence in the financial system.

In this regard, ERLP focuses on upgrading CBY's institutional capacity and provides technical assistance and training designed to promote critical policy, regulatory and institutional reform in the following areas: (i) Monetary Policy And Cash Currency Management, (ii) Foreign Exchange and Reserve Management, (iii) Domestic Payments and Settlement Systems, (iv) COVID-19 Response Options; (v) Anti-Money Laundering and Countering Terrorist Financing; and; (vi) Banking Supervision And Risk Management. This myriad of strategic central bank regulatory and institutional reform and related capacity-building interventions is reinforced through the project's support of the CBY Action Plan, which contains macro-financial regulatory and institutional reform actions the CBY needs to achieve to carry out core central banking functions.

In the *Monetary Policy and Management reform* area, ERLP has focused on implementing a sound monetary control framework to promote further improvement in core macro-stability conditions and gradually restore trust in the national currency. The project has assisted the CBY in drafting clear and transparent guidelines for cash management as part of a revision of cash management policies and procedures. ERLP has also continued its work on development of detailed liquidity forecasting and money demand estimation exercises, which have helped enable the CBY to control monetary emission and cash distribution in accordance with the transactional needs and the absorptive capacity of the economy.

Through the end of the first half of CY2021, the CBY remains on track to achieve annual monetary growth targets. Broad money and currency issued rose by 4.1 percent and 6.2 percent, respectively, during January – June 2021, compared to targets of 9.1 percent and 11.3 percent. Similarly, M2 increased by 4.6 percent during this period, well below the semi-annual target of 9.1 percent projected in the annual monetary plan.

The project has also trained and assisted the CBY Research Department in compiling and issuing quarterly bulletins that track and analyze key macro-financial statistics. The publication will serve as a core reference in an effective and well-informed monetary policy decision-making process. The third *Quarterly Bulletin* was published in June 2021.

ERLP *Foreign Reserve & Exchange Management* experts are helping CBY lay the groundwork for a stable, efficient, and transparent FX management regime. In Q3, ERLP made significant progress toward the adoption of a modernized foreign reserve department organizational structure and best practice guidelines for FX reserve tracking. The project also developed a comprehensive framework for the CBY to regulate market interventions and pursue FX placement/allocation activities utilizing the Refinitiv Platform. Moreover, ERLP also arranged a study tour during the past quarter for senior CBY officials to the Refinitiv Centre in Cairo, where they received a hands-on demonstration on a modern technical and procedural platform for FX tracking and management (including a robust FX auction tool), before a system-wide live simulation planned to be carried out in Yemen late this summer.

ERLP is also helping the CBY develop a foreign reserve investment and utilization strategy, including a comprehensive set of policy guidelines on the efficient use and investment of the unfrozen and new foreign reserves; as well as establishing a transparent and efficient procedural framework for allocating foreign exchange resources to the market on a competitive basis. This, in turn, will help the CBY both manage foreign reserves in a stable and efficient manner; and facilitate the transition to a market-based FX allocation system, which promotes efficient price discovery signals and can lay the groundwork for the establishment of a flexible exchange rate determination system in Yemen.

*The Payments and Settlement Systems* subcomponent is focused on further enhancing the organizational capacity and functionality of the newly established CBY Payments System Department (PSD). It is undertaking targeted support activities designed to facilitate progress towards the establishment of a more efficient electronic interbank payments and check-clearance system. The project also is continuing its focus on helping establish a sound regulatory and operational framework for Mobile Financial Services (MFS) operations in Yemen.

This quarter, critical progress was made with the CBY's launching of the same-day near real-time inter-bank settlement, using SWIFT and the current core banking system. A new automated check clearing system was successfully running during Q3, and is expected to be fully operational during Q4. The project also neared the finalization of the Real-Time Gross Settlement (RTGS) and small-value net settlement (Automated Clearing House/ACS) tender documentation, which are expected to be published next quarter. The CBY also, with project support, adopted a white paper on the establishment of the National Payment Council. The Council is expected to help facilitate the growth and development of the Yemeni payment services sector.

The project also continued its implementation work with CBY on *COVID-19 Macroeconomic, Fiscal, and Financial Impact Public Sector Response Strategy*. Utilizing Pragma's detailed knowledge of the macro-fiscal environment in Yemen and COVID response option strategies across the MENA Region, ERLP is working with CBY officials in fashioning a sound and realistic COVID-related macro-financial response strategy and measures. During Q3, the project developed an updated CBY COVID "tracker" instrument, together with an updated overview covering the macro-financial performance impact of the COVID Crisis, and related response measures and an updated analysis of the impact of the crisis on key money supply and liquidity indicators.

To address identified deficiencies in Yemen's *Anti-money Laundering/Counter-Terrorist Financing (AML/CFT)* framework, ERLP continues to cooperate closely with CBY Banking Supervision Department (BSD) and the Financial Intelligence Unit (FIU) on achieving critical regulatory and institutional reforms needed to strengthen AML/CTF financial reporting and compliance processes. Together with key stakeholders, the project is implementing fundamental organizational, training, and operational recommendations to jumpstart the process of transforming the BSD and the FIU into effective core AML/CFT compliance monitoring and enforcement institutions.

During Q3, ERLP responded to a CBY request to draft a white paper explaining/promoting the adoption of key amendments to AML/CFT regulations; in order to bring them into compliance with FATF standards. The project also assisted the BSD in developing an off-site inspection manual, a guide to improving the analysis of Suspicious Transaction Reports (STRs), and a manual for conducting on-site inspection missions. In addition, ERLP assisted the BSD and FIU in developing an MOU that facilitates the exchange of financial intelligence and other information related to money laundering, terrorism financing, and related crimes. It will also effectively enhance coordination between the BSD and the FIU regarding core control, supervision, and inspection requirements banks and other FIs in the AML/CTFT area.

In the area of *Bank Supervision and Risk Management*, ERLP is focused on improving the safety and soundness of the financial regulatory framework and monitoring/compliance system. This quarter, ERLP worked intensively with the newly organized off-site surveillance team to further upgrade and expand the CAMEL financial performance system and related performance ratios. This is designed to facilitate a detailed analysis of bank data and enable the division to facilitate enhanced compliance with basic

financial reporting and performance requirements. In this regard, senior project advisors assisted with the on-site inspection of two commercial banks during Q3, CAC bank and the National Bank of Yemen. The inspections followed the rigorous guidelines established in the ERLP supported off-site inspection manuals that CBY adopted during the prior quarter.

## **FISCAL POLICY DEVELOPMENT AND IMPLEMENTATION**

ERLP's fiscal policy reform strategy continues to incorporate a strong focus on enhancing MOF's fiscal policy-setting and administrative oversight capacity; through targeted technical/training support designed to enhance institutional capabilities and operational frameworks/practices in the revenue forecasting and tax policy & administration, budget planning/execution, and debt management areas. This includes ongoing focused efforts to develop core elements of a sound, better practice compliant revenue policy framework.

In this regard, ERLP Revenue Policy and Administration experts completed a further 'deep-dive' diagnostic of the tax policy framework in Yemen during Q-3. The team took the initial steps towards the transition from the existing GST system to a full-fledged VAT structure, by discussing and agreeing on the key policy parameters for a comprehensive transition process with the authorities. These will form the basis for the VAT legislation that will be developed over the coming months. In addition, the team also conducted a further in-depth analysis of the current revenue regimes in the oil sector and the fisheries industry, including development of initial strategic recommendations on reforms needed in these sectors.

Under the *Tax Administration* subcomponent, ERLP developed strategic regulatory and operational guidelines for tax administration reform, which would improve the efficiency and transparency of core functions (registration, filing, examination/audit, collection, and appeals); initially through establishing a large taxpayer unit. ERLP fiscal advisors, in collaboration with senior tax officials, identified the core elements required to overcome existing major institutional and procedural deficiencies; and designed a strategy focused on initial organizational and procedural reforms required to promote enhanced voluntary taxpayer compliance and facilitating identification and effective management of non-filer/stop-filer behavior.

The *Debt Planning and Management* unit made substantial progress toward the implementation of a debt management system during Q3. In this regard, ERLP experts prepared and reviewed in collaboration with MOF and CBY stakeholders the hardware, software, procedural and training pre-requirements for installation and operationalization of the DMFAS debt management system. The team also helped local stakeholders dialogue effectively with potential vendors in a manner which significantly improved the service delivery capability and cost-effectiveness of potential debt management platforms. This process resulted in the selection of the UNCTAD System for the DMFAS 6 platform at an extremely cost-effective price (approximately half of the cost initially requested by UNCTAD). Initial follow-up implementation steps will commence in Q4.

During Q3, ERLP *Budgetary Planning* experts worked with MOF stakeholders to help finalize the CY2022 budget circular draft, which will help guide the CY2022 budget preparation process in a more efficient and transparent direction. The project also continued to work with senior MOF officials to improve the existing budget classification structure and the budget classification manual in a manner designed to promote fuller compliance with GFS requirements. Moreover, ERLP collaborated with MOF, MOPIC, and key line agency counterparts on developing the basic planning and related procedural structure for a

Medium-Term Expenditure Framework (MTEF), which will be implemented initially on a pilot basis in the education and healthcare sectors.

In the *Budget Implementation* area, the project facilitated formation of a path-breaking inter-agency working group on cash-forecasting processes, including members from MOF and the CBY. Significant progress was made on design of the core procedural framework for enhanced cash forecasting and tracking/control procedural frameworks; basic preconditions for the gradual transfer of treasury management functions to the MoF from the CBY. In addition, the Joint Committee for the Management of the Treasury was launched this past quarter with MOF and CBY participation – a major step forward in this direction. ERLP Budget Implementation advisors also supported development of a best practice compliant financial circular in Q3 that provides well-defined guidelines for improving budgetary allotment, commitment control, and payment authorization processes.

## **TRADE FACILITATION POLICY DEVELOPMENT AND IMPLEMENTATION**

ERLP is focused on facilitating trade reform and significantly improving sea and land transport and related logistical operations in Yemen; by advancing reforms in line with international standards, including the World Trade Organization Trade Facilitation Agreement (WTO TFA). In this regard, Yemen needs to continue and further accelerate progress towards introduction of modern trade facilitation measures, digitization of trading procedures, streamlining of the number of documents required for import/export, and reduction of non-tariff barriers to trade. These core TF-targeted actions are fundamentally needed to (i) facilitate the flow of essential goods into Yemen, particularly humanitarian aid, food products, and critical medical supplies for countering COVID-19; (ii) enhance the competitiveness of Yemeni producers, particularly SMEs; and (iii) promote Yemeni exports.

During the quarter, the ERLP/TF team engaged in close work with the NTFC (that was established in Q2 with ERLP support) to provide further guidance and support; in order to significantly further enhance NTFC's domestic cooperation and implementation of the WTO TFA provisions. A needs assessment for the NTFC Secretariat was conducted during Q3, and draft TFA notifications for the WTO were prepared.

Other major trade facilitation areas in which ERLP made significant progress during this quarter included the following: (i) further promoting public-private partnership processes through the expanded AEO framework and an increase in the number of the Authorized Economic Operator (AEO) holders; (ii) further developing risk management and post-clearance audit capabilities; (iii) facilitating further border agency cooperation through development of draft MOU and conduct of a roundtable for trade agencies and related completion of a cross-border assessment exercise; (iv) developing detailed export guidelines for Yemeni honey and coffee; (v) launching a detailed survey of trading costs and delays; (vi) completing two-vessel exercises with concrete recommendations for related trade transit improvements; (vii) completing standard operating procedures for marine services and logistics and two training modules for the Maritime Training Center; and (viii) developing and dialoguing on a revised organogram for Aden Container Terminal, along with articulating revised job descriptions for key positions.

## COMPONENT 2: IMPROVED MICROECONOMIC CONDITIONS

### SUPPORT TO SMALL AND MEDIUM ENTERPRISES (SMES)

ERLP support under Component II is focused centrifugally on sustainably enhancing the competitiveness of the SME sector and expanding employment opportunities. It fundamentally follows Pragma's successful buyer-led model to boost the competitiveness and business performance of high-potential small/medium-sized businesses; in a manner that drives employment growth, raises incomes, and stimulates greater private-sector self-reliance. This approach has been appropriately adapted to the fragile conflict-prone institutional conditions found in Yemen. In this regard, the project works directly with SMEs identified as having significant growth potential. It then provides targeted technical assistance to enhance their management, operations, administration, and/or marketing capacity; in a manner designed to expeditiously and sustainably expand output, increase revenue, and create new jobs.

During Q3, ERLP *Workforce Development* experts worked intensively to upskill recent graduates and other job seekers in key skill-gap areas, emphasizing expansion of opportunities for traditionally disadvantaged women and youth segments of the workforce. The project provided high-impact pre-employment training for SMEs and conducted targeted, market-led building capacity interventions for women.

ERLP also further accelerated strategic curriculum development activities initiated during the prior quarter, and addressing major discrepancies between current curriculae and private sector workforce demand in key skill areas. This entailed intensive work with the network of vocational education institutions associated with Seyoun Community College. Targeted pedagogical focus areas were identified through skill gap-related information received via the project's ongoing work with partner firms. As a result, new vocational degree programs in renewable energy, software programming, and health management subsectors are being designed, which will begin in the 2021-22 academic year.

The *Access to Finance (A2F)* sub-component focused during the quarter on innovative approaches to help address the endemic difficulties faced by SMEs in securing the financing needed to achieve sustainable growth. Key constraints that are being addressed through outreach efforts with progressive commercial banking and micro-lending institutions include the lack of adequate credit products, inadequate risk analysis methods and assessment/mitigation techniques, weak credit management practices, excessive collateral requirements, and the lack of focus on the SME sector as a viable target market.

ERLP A2F advisors provided targeted technical and training assistance during this quarter to develop, test, and roll out cutting-edge lending and risk management practices to a network of core partner institutions. The program focused on demonstrating effectively to partner commercial finance institutions – through institutional outreach/dialogue and provision of targeted technical analysis and capacity-building services - that lending to high-potential SMEs, including women-owned and youth-oriented businesses, can, in fact, be a highly profitable business proposition. This quarter, a total of \$6 million was disbursed to 1,191 SMEs – 374 of which were women-owned businesses.

### SUSTAINABLE LIVELIHOODS

*Agriculture and Agribusiness.* More than half of Yemen's rural workforce is employed in agriculture, nearly all as small-scale farmers. The sector is labor-intensive and largely underdeveloped, characterized by low productivity levels and outdated farming practices. The situation results in muted output and



productivity levels that increase rural poverty. Inefficiencies often result from water scarcity and lack of access to improved technologies; inadequate cultivation and harvesting techniques; poor storage, marketing, and packaging practices; lack of credit access; and/or inadequate integration into supply chains.

To improve rural livelihoods, ERLP has focused on introducing market-led farming practices and new technologies to its partner households operating in the coffee, honey, horticultural crops, and livestock value chains. Targeted interventions are designed to deliver positive impacts on its partner households in terms of increased productivity, quality, and incomes, which effectively address specific end-buyer needs and relieve key constraints impeding growth. The project has incorporated a major focus on improving market access and expanding the linkages between Yemeni producers and a range of international buyers. This assistance is also being supported by ERLP's A2F component, which works in coordination with ERLP/Sustainable Livelihoods specialists to increase producer access to finance.

ERLP delivered 31 agriculture technical training activities during the quarter benefiting 688 farmers, and partners signed 124 new sales agreements valued at \$1.03 million. The skills training significantly enhanced farmer productivity, reduced postharvest losses, and added value to farm products by significantly improving product quality and marketing.

Small-scale fisheries are central to the livelihoods of millions in Yemen's coastal areas and play a critical food security and employment generation role in these regions. Fisheries represent Yemen's second-largest export commodity after oil, significantly contributing to foreign exchange earnings. However, the international marketplace for fisheries exports is highly competitive, with rapid demand shifts related to fish quality and safety issues.

Despite the sector's significant economic potential, numerous challenges have traditionally constrained its further growth. ERLP technical assistance and training support has in this regard been strategically focused on strengthening stakeholder technical and quality management capacity; helping promote stronger fishing sector compliance with basic international quality and safety standards, and enhancing international market linkages. This in a manner that can directly increase the export of value-added seafood products, and create related employment expansion opportunities.

During the quarter, ERLP Sustainable Livelihoods Fisheries interventions delivered tightly focused technical assistance and training support to 75 coastal women; helping them gain new or better employment, and effectively supporting women-owned microenterprises to generate increased sales. Targeted training was also provided to 138 fisherfolk, who joined ERLP partner seafood processing companies to effectively work on the production line or become fish suppliers. Partner seafood processors/ businesses reported increased overall sales of at least 10 percent, and \$1 million in additional export sales.

# COMPONENT I: IMPROVED MACROECONOMIC FUNCTIONS OF KEY INSTITUTIONS

## I.1 IMPROVED MONETARY POLICY DEVELOPMENT AND IMPLEMENTATION

ERLP is providing targeted technical and training support designed to promote critical macro-financial policy, regulatory and institutional reform in the following core areas:

1. Monetary Management Reform
2. Foreign Exchange and Reserve Management
3. Payment Systems Reform
4. COVID-19 Response Options
5. Anti-Money Laundering and Counter-terrorism Financing
6. Banking Supervision and Risk Management.

The Monetary Policy and Management Reform sub-component has focused on implementing a sound basic monetary control framework to promote further improvement in core macro-stability conditions and gradually restore trust in the national currency. The project also assists the CBY Research Department in compiling and issuing quarterly bulletins illustrating key macro-financial statistics. The Bulletins serve as a core reference in an effective and well-informed monetary policy decision-making process. The third *Quarterly Bulletin – Economic and Monetary Developments* was published in June 2021.

In Foreign Reserve & Exchange Management, ERLP supports the full functionalization of a modern Foreign Reserve Management (FRM) Department in the CBY. This includes assisting the CBY FRM team in releasing frozen CBY deposits in foreign banks, developing a comprehensive regulatory and operational framework for FX auctioning mechanisms based on market-clearing practices, and systematically tracking and managing FX investment allocation processes. It also includes monitoring and executing FX payment processes (including foreign debt repayments under a reactivated DMFAS debt tracking/payment system), adopting best practice guidelines for FX reserves portfolio management, and restructuring the FRM Department.

The Payments and Settlement Systems subcomponent focuses on further enhancing the organizational capacity of the CBY Payments System Department (PSD). This entails the robust elaboration and implementation of job description and workflow requirements, and related staffing and training activities. It will also involve establishing the related IT infrastructure required for the efficient and time-effective management of payment system informational flows. In addition, the project has made substantial progress towards establishing a more efficient electronic interbank payments and check-clearance system. ERLP is also building a sound regulatory and operational framework for Mobile Financial Services (MFS) operations in Yemen and advocating the piloting of an MFS-based public-sector salary payment program.

To address identified deficiencies in Yemen's Anti-Money Laundering/Counter-Terrorist Financing (AML/CFT) framework, ERLP cooperates closely with CBY Banking Supervision Department (BSD) and the Financial Intelligence Unit (FIU) on achieving the required regulatory and institutional reforms needed. Together with key stakeholders, the project is implementing fundamental organizational,

training, and operational recommendations to jumpstart the process of transforming the BSD and the FIU into Yemen's core AML/CFT compliance monitoring and enforcement institutions.

In the critical area of Bank Supervision and Risk Management, ERLP is focused on improving the safety and soundness of the financial regulatory framework and monitoring/compliance system. The importance of rapid progress in this area is further underscored by the impact of the COVID-19 crisis on financial stability and liquidity conditions across the financial system. The project is conducting a comprehensive reorganization and upgraded staffing & training program with the BSD.

In this regard, substantial progress has been made on the robust implementation of CAMELS on-site examination and off-site financial reporting/performance requirements designed to ensure sound financial performance on the part of commercial finance institutions. This effort also includes a targeted focus on improving the governance framework for IT risk management in the banking & finance sphere and supporting a broader effort to enhance CBY's overall capacity to measure and control risks across major functional areas of CBY activity.

### **I.1.1 MONETARY MANAGEMENT REFORM**

#### **BACKGROUND**

Macroeconomic stabilization requires ongoing strengthening of the CBY's capacity to conduct appropriate monetary policies, in a manner that can effectively regulate the money supply in line with the real economy's absorptive capacity, thereby mitigating inflationary and exchange rate depreciation pressures. During the past quarter, ERLP continued to take critical next steps to improve monetary control and better manage inflation expectations during the quarter. Key focus areas included further strengthening the CBY's analytical capabilities to implement monetary policy based on realistic quantitative targets, and initiating planning for more flexible and market-based monetary policy instruments as operational tools for liquidity management.

#### **QUARTERLY WORK ACTIVITIES/DELIVERABLES**

During the quarter, ERLP experts monitored the initial implementation of the annual CY 2021 monetary plan and related cash currency management/circulation program. The ERLP Monetary Management Component's efforts were centrifugally directed towards establishing an appropriate regulatory framework, as well as developing initial guidelines for possible implementation of basic indirect instruments of monetary control. The project also helped fully staff the newly created Monetary Control Division within the CBY Department of Monetary Research and Statistics. ERLP also provided targeted training to CBY staff in monetary programming, money demand estimation, and monetary policy formulation.

**Table 1: Q3 Monetary Management Activities and Deliverables**

ACTIVITY	DELIVERABLES
Closely monitor/review the initial implementation of CY 2021 monetary plan.	1. A comprehensive mid-term report detailing the progress on the:

ACTIVITY	DELIVERABLES
Facilitate the establishment of an appropriate regulatory framework and guidelines for the implementation of basic indirect instruments of monetary control.	a. Establishment of an appropriate regulatory framework. This report will include the guidelines for the implementation of basic indirect instruments of monetary control.
Determine transparent, efficient, and uniform eligibility criteria for access to flexible monetary policy control instruments/operations, in a manner that promotes participation of a broad range of sound commercial finance institutions.	b. Establishment of transparent, efficient, and uniform eligibility criteria for access to flexible monetary policy control instruments/operations. c. Establishment of a monetary control division within the department of monetary research and statistics at CBY.
Facilitate establishment of a monetary control division within the department of monetary research and statistics at CBY.	At least 6 targeted training sessions provided to CBY staff in the monetary control division covering the areas of monetary programming, money demand estimation, and monetary policy formulation.

**I. INITIAL IMPLEMENTATION OF CY 2021 MONETARY PLAN**

After designing the Annual Monetary Plan for 2021, the Research and Statistics Dept. has been monitoring its implementation on a quarterly basis with the assistance of ERLP experts. In this regard, the Annual Monetary Plan for CY 2021 projected broad and base money growth of 18.3 percent and 19.1 percent, respectively -- consistent with containing the inflation rate in the 20-25 percent range.

**Assessment of the annual monetary plan implementation as of March 2021**

Base money rose by 1.4 percent over the first quarter of CY 2021, against a quarterly target of 4.8 percent or 19.1 percent annually. Currency issued grew by 3.1 percent over the same period – This compares with a target of 5.7 percent quarterly or 22.7 percent annually.

Broad money (M2) grew by 0.7 percent through March. This is well below the quarterly target of 4.6 percent and is very much on pace in relation to the 18.3 percent yearly growth rate projected in the Annual Monetary Plan. Maintaining this pace will help prevent any acceleration of currency emission during the current year and help stabilize exchange rates and prices.

**Assessment of the annual monetary plan implementation as of June 2021**

Base money rose by 4.1 percent over the first half of CY 2021 against a target of 9.5 percent on a semi-annual basis or 19.1 percent on an annual basis. Currency issued grew over the same period by 6.2 percent compared to a target of 11.3 percent on a semi-annual basis or 22.7 percent on an annual basis.

M2 increased by 4.6 percent through June, well below the semi-annual target of 9.1 percent, or 18.3 percent annually considered in the annual monetary plan.

Thus, monetary expansion experienced during the 1<sup>st</sup> semester of 2021 is well on track to achieve its annual target.

Overall, the CBY has been very successful so far during CY 2021 in its mission of maintaining money supply growth at a limited pace. It should be underscored that in the absence of a foreign reserve buffer,

a strong commitment to the Annual Monetary Plan targets remains the only viable tool at the CBY's disposal for containing inflationary pressures and stabilizing exchange rate movements.

## II. ESTABLISHING AN APPROPRIATE REGULATORY FRAMEWORK AND GUIDELINES FOR THE IMPLEMENTATION OF BASIC INDIRECT INSTRUMENTS OF MONETARY CONTROL

Given the limited absorptive capacity of the real economy and the weak development of the financial system, judicious planning, and management of direct monetary emissions into the financial system remains of paramount importance for purposes of maintaining macroeconomic stability; while meeting basic private and public sector liquidity needs. Overall, the main factors driving liquidity expansion in recent years have been the government's payment of public salaries and pensions, and the transfer of remittances and humanitarian aid. Imports of food and fuel remain the most important drivers of liquidity demand by the public and private-sector actors.

The banking sector has been experiencing a substantial liquidity shortage, owing to the government's inability to repay its commercial bank debts. In this regard, banks are heavily dependent on government securities, which represent more than 60 percent of their assets. The liquidity shortage faced by banks has further impaired their capacity to preserve/attract deposits. This, in turn, has further exacerbated liquidity needs to the extent that depositors look to withdraw their funds from commercial banks.

Furthermore, the significant depreciation of the local currency (YER) since the outbreak of the war - further accelerated by the pandemic mitigation measures - has reinforced the flight to foreign currency (substitution of YER by USD and SAD). This has further weakened the value of the Rial in the FX market and negatively impacted the purchasing power of citizens.

Within this context, the CBY is focused on gradually moving towards the adoption of a more robust monetary policy by adjusting monetary flows in a fluid manner through basic open market operations. At this stage and given the absence of any market-based tools of monetary control at the CBY's disposal, ERLP has worked intensively with relevant central bank staff to develop and propose the gradual adoption of a comprehensive toolkit of monetary policy operations based on indirect instruments of liquidity management.

The liquidity management operations framework being designed is intended to ensure the absorption of liquidity when warranted, and to facilitate the injection of liquidity when the banking system confronts a deficit through Open Market Operations (OMOs).

Surplus liquidity is to be primarily absorbed via the issuance of short-term instruments such as CBY certificates of deposit (CDs) and debt instruments that include government treasury bills and short-term bonds. In addition to absorbing liquidity, the government debt instruments will help meet the immediate financing needs of the government. Liquidity injections will be carried out through outright asset sales and purchases/repurchase agreements (Repo); through the utilization of CBY CDs, government bonds, and government treasury bills.

Other key indirect policy instruments - including FX interventions and standing facilities (overnight lending and borrowing facilities) -- will also be used periodically as part of the early stage conduct of sound liquidity management operations. Putting standing facilities in place can, over time, have a strong impact on financial market development for Yemen. In addition to allowing eligible counterparts to access central bank money through the overnight lending facility (discount window operations) and

investing surplus liquidity (via recourse to the overnight deposit facility), standing facilities can support the eventual emergence of an interbank market. This, in turn, could mark a fundamental initial step towards the emergence of a yield curve, and eventual interest rate targeting policies.

### **III. TRANSPARENT, EFFICIENT, AND UNIFORM ELIGIBILITY CRITERIA FOR ACCESS TO MONETARY POLICY OPERATIONS ESTABLISHED**

Transparent and efficient criteria for counterparty access to central bank monetary policy operations have been developed/incorporated into the ERLP draft guidelines for monetary control operations by CBY. This entailed the establishment of uniform eligibility criteria designed to ensure equal treatment of counterparties across the financial system, based on capacity to fulfill basic prudential and operational requirements (as further elaborated below).

#### **Prudential Requirements**

Eligible counterparties are required to exhibit financial soundness, in accordance with established prudential standards and rules. This, in turn, entails compliance with mandated capital and liquidity ratios. Moreover, the CBY can suspend, exclude, or limit access to monetary policy operations by counterparties who breach minimum capital and liquidity requirements, or who provide incomplete or tardy compliance to the Banking Supervision Department.

#### **Operational Requirements**

Eligible counterparties are required to hold accounts with the CBY for purposes of ensuring appropriate settlement of payment orders related to their participation in liquidity management operations. These, in turn, are to be settled at the moment of or after the final transfer of the eligible assets used as collateral for the operation. For this purpose, counterparties will be expected to: (i) pre-deposit the eligible assets at the CBY; or (ii) settle the eligible assets with the CBY on a delivery-versus-payment basis.

In practice, most Yemeni banks should be able to readily meet core operational requirements. However, this may well not be the case regarding core prudential requirements related to capital and liquidity ratios. Assessment of capacity to meet these requirements should be conducted based on the most recent financial statement reported to CBY. To this end, the project is assisting the BSD prepare a list of eligible counterparties (liquid and creditworthy banking institutions) that would be suitable to participate in the initial conduct of basic open market operations.

### **IV. ESTABLISHMENT AND STAFFING OF THE MONETARY CONTROL DIVISION**

Following the intake of four new graduates during the first half of CY 2021, the Research and Statistics Department has, with ERLP assistance, reorganized its structure in a manner designed to distribute tasks and duties more appropriately between its overall staff (in accordance with sound specialization principles). Recent progress in this area is further described below:

#### **Establishment of the Monetary Control Division**

A number of modifications have been introduced to the structure of the Research and Statistics Department, in order to improve the efficiency of its information collation and analysis tasks. These have been designed to significantly enhance the department's ability to make effective contributions to the formulation and implementation of appropriate monetary policies, for purposes of controlling inflation and enhancing financial stability, and enhancing macro-financial data availability.

In this regard, the 'Monetary and Economic Studies Division' has been restructured/replaced by the 'Monetary Control Division,' consisting of three offices.

- Office of Monetary Policy Analysis
- Office of Market Operations and Liquidity Forecasting
- Office of Economic and Financial Studies (Research)

In addition, the Division of Statistics and the Division of Balance of Payments have been merged into a single Statistical Division with clarified data collation/analysis responsibilities:

- Office of Monetary and Financial Statistics
- Office of Balance of Payments Statistics
- Office of National Accounts and Price Statistics

### **Staffing and Job Descriptions**

ERLP has worked with the newly structured departments in establishing clear criteria for candidate selection and scheduling interviews. In this regard, ERLP developed rigorous qualifications assessment forms and written exams to measure the specific knowledge of candidates applying for open positions at the department. The project experts also developed sample technical and behavioral questions used during applicant interviews and participated as well as members of the selection committee.

Based on transparent recruitment criteria set up by the committee, twelve candidates were shortlisted, from which the four with the highest written and oral examinations scores were selected for the open positions in the department. ERLP conducted a series of training sessions for the new staff to acquire practical skills in monetary programming and policy and econometric techniques.

ERLP also completed job descriptions for key positions, proposed assignment of the new recruits between the department's various offices, and helped develop core workflow processes. The Monetary Control Division was, as a result, tasked to perform the following principal activities:

- Design a well-calibrated monetary policy strategy;
- Guide the growth of monetary aggregates in a manner consistent with the annual monetary plan;
- Propose corrective actions as needed to ensure that money growth is compatible/consistent with anticipated GDP growth, thus keeping inflation under check;
- Efficiently analyze and forecast liquidity, as a fundamental prerequisite for sound conduct of market-based monetary policy operations;
- Prepare sound and practical research studies in the monetary policy area and provide essential inputs into decisions taken by top management.

### **V. TARGETED TRAINING TO CBY STAFF**

During the past quarter, ERLP provided a series of training workshops for CBY staff working in the Monetary Control Division. These were mainly focused on enhancing staff capacity to compile and analyze economic and financial statistics in a manner that improves understanding of how the economy functions; and can contribute to the formulation and implementation of a sound monetary management framework.

Conducted remotely via Zoom, these sessions covered a broad range of topics; but focused primarily on macro-econometric forecasting using Eviews -- a popular software for estimating and simulating forecasting models. This has, in fact, become a standard in central banks and academic institutions worldwide. Special attention was paid to key monetary policy topics, such as money demand estimation using a regression-based approach. Basic econometric concepts, including linear regression and time series analysis and forecasting, were introduced to relevant staff. Materials prepared for the training activities included detailed PowerPoint presentations, as well as Excel spreadsheets for case studies.

The following is a capsule summary of the training sessions provided to the CBY/Research Department.

DATES	TOPICS/ISSUES
June 8, 2021	Introductory session: Macro econometric forecasting using Eviews -- a popular software for estimating and simulating forecasting models that has become a standard in central banks and academic institutions worldwide.
June 15, 2021	This virtual training session provided a detailed walkthrough of the basic functionalities of Eviews. Participants learned how to create a workfile, import data from Excel, edit and generate time series and examine data dynamics (different types of graphs) and descriptive statistics.
June 22, 2021	This session was dedicated to building and estimating basic regressions in Eviews using the OLS method.
June 29, 2021	The focus of this session was on visual checks of series, testing, and correcting for serial correlation.
July 1, 2021	This training session focused on estimating the relationship between output, money, and inflation using Yemeni data from 1994 to 2020. This entails detailed presentation and implementation of causality and cointegration tests.
July 6, 2021	This training session was dedicated to estimating the money demand function for Yemen based on an open economy model. The best specification was identified based on the stability test and the robustness and forecasting quality of the model.

## CONCLUSION/NEXT STEPS

During the next quarter, ERLP will continue strengthening CBY's capacity to conduct an appropriate monetary policy framework. This will include ongoing monitoring of compliance with CY 2021 monetary emission targets, as well as effective regulation of market liquidity conditions via initial implementation of indirect instruments of monetary control.

This, in turn, will enable the CBY to conduct early-stage market-based monetary policy operations (including OMOs); and apply transparent, efficient, and uniform eligibility criteria to counterparty access to monetary policy operations. The process will also promote the participation of a broad range of commercial banks and other financial institutions. ERLP will, in addition, continue to build CBY institutional capacity by providing well-targeted monetary research/analysis training to relevant CBY staff on practical monetary policy formulation and implementation topics.

## 1.1.2 FOREIGN RESERVE & EXCHANGE MANAGEMENT

### BACKGROUND

**In the foreign exchange and reserve management area (FXRM),** ERLP support covers the full functionalization of a modern foreign reserve management (FRM) department at the CBY in line with global best practices while cognizant and tailored to the situation of Yemen on the ground. This includes providing assistance to the CBY FRM team in releasing frozen deposits of the CBY held with foreign banks, developing a comprehensive regulatory and operational framework for FX auctioning mechanisms



based on market clearing practices, and using technology platforms deployed by the majority of central banks globally, systematically tracking and managing FX investment allocation processes and monitoring/executing FX payment processes (including foreign debt repayments under a reactivated DMFAS debt tracking/payments system), adopting best practice guidelines for FX reserves portfolio management and governance, and restructuring the FX reserves management department in order to enable the aforementioned targets. The program, therefore, is fully aligned with the holistic vision of the CBY team of a modernized FX Reserve Management function.

The CBY has been engaged in managing a volatile FX situation since the start of the political crisis. Typically, the sources of FX flows in Yemen are based on gross oil exports (the oil trade balance is, on the whole, negative and results in a significant outflow of FX from Yemen on a net basis, though); some limited exports of other goods, including from fisheries, coffee, and honey; in addition to remittance flows which is the primary source of foreign currency in the country. Official estimates of FX remittance flows amount to approx. 16% of GDP or up to USD4.0 billion, while unofficial remittance flows are estimated at double this amount or USD8.0 billion.

It is worth noting that the banking system in Yemen has a very low level of penetration (an estimated 5-10% only of the population have access to bank accounts), while an estimated two-thirds of FX market activity happens outside the banking sector. FX trading outside the banking sector happens via exchange houses and small Hawala's of which there are more than 400 listed entities in Yemen, and they have a much better geographical penetration compared to banks.

The demand-supply gap, with demand for FX much higher than supply, coupled with this FX market microstructure mentioned above, are the basis of the existing divergence between official rates and parallel market rates which, which reached 40% at certain points in time between 2018 and 2020. With an official rate of YER400/USD1 (up from YER250 previously), parallel market rates hovered around YER950/USD1 in June 2021. This highlights the importance of the ERLP engagement in this area through its key areas of intervention.

## **QUARTERLY WORK ACTIVITIES/DELIVERABLES**

Over the course of ERLP-Quarter III (March to June 2021), ERLP experts focused on achieving seven main targets: **(i)** Easing access to major frozen FX accounts; **(ii)** Building consensus towards implementation of the proposed foreign reserves investment strategy, policy guidelines & governance framework; **(iii)** Conducting FX allocation/placement simulation and training, developing the related regulatory guidelines and transitional arrangements; **(iv)** Updating the systemic foreign reserves allocations, status reporting framework and data warehouse applications; **(v)** Reporting on DMFAS installation and debt statistics forecasting status for FX Reserves Management Purposes. **(vi)** Achieving significant progress towards the adoption of modernized foreign reserves department organizational structure and FX reserves management best practice guidelines, and **(vii)** providing training in FX Reserves Best Management Practices. In the following sections, these deliverables are discussed in detail.

Moreover, a high-level mission with a holistic link to all the aforementioned deliverables took place shortly after quarter close (a delay to travel arrangements from June was on the back of Egypt being placed on a red list by the UK government). The mission to Cairo, Egypt, from July 4<sup>th</sup> to July 8<sup>th</sup> comprised ROYG CBY senior officials who traveled to attend a three-day workshop on Refinitiv (Reuters) applications at their regional training center, with a specific focus on FX auction applications

and simulations. This provided the CBY team with a hands-on demonstration prior to the system-wide live simulation planned to be rolled out in Yemen late this summer.

The Refinitiv training was preceded by a one-day Pragma-led visit to the Central Bank of Egypt, which included meetings with leading CBE counterparts and subsequently followed by a two-day workshop on reserves management, global best practices, both led by and delivered by the Pragma Senior FXRM advisor, with support from a local short term consultant for case studies administration.

The visit enabled knowledge transfer from the CBE to the CBY and the sharing of lessons learned, particularly with regard to managing FX Reserves during periods of currency volatility and in situations where a parallel market exists. The visit provided further impetus to speed up the pace of reform implementation after the CBY FXRM team observed first-hand practices at the CBE and participated in the session delivered by Mr. Amr Maged, Treasurer, Banque du Caire, Egypt’s third-largest public sector bank slated for privatization and previously CBE FXRM Portfolio Manager during the reform phase. Mr. Maged gave a hands-on practitioner’s view of the Egyptian reserves management reform story and evolution of practices from the early 2000s through to the present.

Additionally, a workshop on DMFAS 6 was delivered to the CBY team by ERLP Sr Public Debt Management Expert Dania Al-Osta on the prerequisites and requirements needed for DMFAS 6 installation. It also covered the important aspects of the system, explaining how the system is used to manage debt and other financial instruments throughout the phases of their life cycle: registration, mobilization of funds, and debt service operations. It also introduced the reporting and analysis features.

The debt management system is a key element to optimal reserves management for several reasons: i) provides accurate estimates of the outstanding debt stock and obligations at the level of the sovereign, which have to be covered by foreign reserves (this includes details such as loan terms and conditions, interest rates and benchmarks, installments payable, grace periods or moratoria if any). ii) DMFAS output will be linked to the reserves data warehouse; and iii) the ERLP proposed prototype reserves management policy is based on a segregated portfolio approach with three sub-portfolios: one for liquidity purposes, one for liabilities matching, and the third for yield enhancement and long term investment purposes. A detailed report on the mission proceedings is presented in Annex 6.

ACTIVITY	DELIVERABLES
Continue/expand information provision and follow-up outreach and documentation actions requires to regain access to all frozen FX accounts.	1. Continue/expand of information-provision, and follow-up outreach and documentation actions requires to regain access to all frozen FX accounts.
Further deepen implementation of better practice compliant foreign reserve investment strategy by CBY.	2. Further deepen implementation of better practice compliant reserve investment strategy by CBY.
Facilitate full adoption of regulatory/procedural guidelines that facilitate efficient and transparent rules-based FX allocation/placement activities by the CBY.	3. Facilitate full adoption of regulatory/procedural guidelines that facilitate efficient and transparent rules-based FX allocation/placement activities by the CBY. 4. Facilitate final approval of better practice compliant Business Continuity and Disaster

ACTIVITY	DELIVERABLES
Facilitate final approval of better practice compliant Business Continuity and Disaster Recovery Plan for foreign reserve management activities/systems.	Recovery Plan for foreign reserve management activities/systems. 5. New job descriptions for foreign reserve department staff comprehensively adopted, and at least 6 related structured training sessions provided on FX management and tracking policies/practices with department staff.
Provide additional structured training sessions on FX management and tracking policies/practices with department staff.	

**I. EASING ACCESS TO MAJOR FROZEN FX ACCOUNTS IN FOREIGN BANKS**

CBY liquid reserves currently stand at about \$300 million – which represents less than 1/3<sup>rd</sup> of a month of import financing requirements. If access were regained to all currently frozen accounts (about \$450 million), that would essentially raise total liquid reserves to a little less than one month of basic import financing needs. Overall, FX reserves have fallen by around 90% from the high point of \$2.2 billion in early 2019 (largely reflecting the rundown of KSA LOC funds to finance basic imports).

About \$400 Million of the \$450 million in frozen reserves (about 86%) is held in two major accounts – Bank of England and the Bank of international settlements. Table 2 presents the large active and frozen deposit accounts which exceed \$5 million, and the figures are represented in millions of US\$. Annex I provides a detailed breakdown of all accounts, including very small exposures in their original currencies and also the change in all accounts (active and frozen) from June 2018 to November 2020.

A minimal rule of thumb for macro-stability purposes is for a central bank to maintain precautionary reserves of at least 3-4 months of annual import financing needs. This underscores how urgent is the need for releasing the frozen funds.

**Table 2: Major & Active Frozen Accounts Breakdown (\$ million equivalent)**

COUNTERPART	CURRENCY	USD EQUIVALENT (MILLIONS)	STATUS
<b>ACTIVE ACCOUNTS</b>			
Federal Reserve Bank of New York (FBRNY)	Gold	79	<b>Active</b>
National Commercial Bank - NCB (Riyadh - KSA)	SAR	143	<b>Active</b>
National Commercial Bank - NCB (Jeddah - KSA)*	USD	173	<b>Active</b>
National Commercial Bank - NCB (Jeddah - KSA)*	SAR	10	<b>Active</b>
<b>Sub-Total Active</b>		<b>405</b>	
<b>Frozen Accounts</b>			
Bank for International Settlements (BIS)	USD	109	<b>Frozen</b>
	EUR	180	<b>Frozen</b>
<b>Sub-Total BIS</b>		<b>289</b>	<b>Frozen</b>

COUNTERPART	CURRENCY	USD EQUIVALENT (MILLIONS)	STATUS
<b>Bank of England</b>	GBP	<b>115</b>	<b>Frozen</b>
Bank of China Hong Kong	USD	43	
	EUR	2	
	CNY	11	
<b>Sub-Total Bank of China Hong Kong</b>		<b>57</b>	<b>Frozen</b>
<b>Sub-Total All Frozen Accounts</b>		<b>461</b>	
<b>Total Material Counterpart Exposures</b>		<b>866</b>	

Source: CBY, cross rates as of June 2021.

Notes:\* This represents the Saudi LOC.

During Q III, ERLP experts have been working with CBY to move forward and finalize the transmission of the required documentation, which includes:

- Republican Decision on appointment of a Deputy Minister of Finance to the BOD (Completed).
- The BOD decree. (Completed)
- Providing a copy of the authorized signatories (Completed).

ERLP experts team exerted significant effort assisting the CBY in completing the documentation required by the Bank of England, closely working with CBY legal counsel in the UK.

In December 2020, ERLP FX advisors had organized a consultation meeting with the CBY FX Reserves Management team to set up this working group which includes CBY key staff from the FX department, ERLP FX advisor, and ERLP legal counsel. While deposits have not been released as of the date of report writing, several queries and updated legal documentation has been provided efficiently and proactively to the Bank of England by the working group.

Further to the latest request received from the Bank of England in June 2021 to receive accredited translations for legal decrees for appointment of the Governor and the Deputy Governor of the CBY, these are currently being prepared by the CBY lawyer in London (the Arabic versions were provided earlier).

The next step once this is submitted to the Bank of England would be to organize a conference call with the working group and the Bank of England, in addition to an official visit which could take place by CBY officials which they have indicated willingness to undertake. The expected timeline thereafter for deposits release is before year-end 2021.

With respect to the frozen accounts with the BIS, the last request received was with respect to authorized signatories at the end of May 2021. Discussions with the BIS are directly led by ERLP legal counsel and the CBY, as per agreement with and guidance from the CBY senior management. These were provided to the BIS, and we are still awaiting a response.

The next step would be to organize a joint call post the Eid vacations in the region with ERLP legal counsel, BIS counterparts, and the CBY to finalize account release. The expected timeline thereafter for deposits release is before year-end 2021.

## II. DEVELOP A FOREIGN RESERVES INVESTMENT & UTILIZATION STRATEGY & POLICY GUIDELINES

The prototype of the Reserves Investment Management Policies and Guidelines is designed to cover the general policies and procedures linked to reserves management. This prototype was presented to the CBY in Q3 for approval and adoption, after being developed over the course of Q2 using BIS best practice reserve management and taking some elements of the earlier prototype developed in Q1. The proposal was well received by the CBY counterparts, and full adoption is expected to be approved *and tailored by the CBY team before year-end 2021*.

The proposed model embodies best practice reserve management principles, while providing the CBY with the strategic space to adapt components in a phased manner as the FXRM practice evolves and internal capacity builds within the team. It also allows for the smooth integration of new hires to fill existing skills gaps as they help with the implementation of the more advanced components. Finally, this prototype includes global benchmarking of best practices, which facilitates both internal approval processes and serves as a guidebook for the development of new segregated portfolios or additions of new asset classes to the investment universe. The model is presented in full in Annex I in English.

A sound FX reserve investment strategy enables the CBY to deliver its dual mandate of monetary stability and safeguarding financial stability. The minimal level of existing reserves should not be a prohibiting factor in developing an investment strategy and policy guidelines in line with best practices, and within the bounds of the reality of the situation on the ground in Yemen and challenges faced by the CBY. On the contrary, because reserves are being built from a small base, this provides Yemen's CBY with a unique opportunity to finetune their investment strategy policy and guidelines during a period where they have the capacity to do so.

BIS best practices for reserves management incorporates an overview of trends and challenges for reserves management globally, relying on data covering 80 percent of reserves under management by central banks and monetary authorities. Some of the *trends* documented include **i)** an increased focus on returns; **ii)** a more structured approach to decision making; **iii)** strengthened risk management (both for financial risks and operational risks); and **iv)** increased requirement for public disclosure. Some of the *challenges* highlighted include: **i)** balancing returns vs. risks; **ii)** choice of benchmark currency; and **iii)** how much public disclosure.

According to WB/IMF data, global central bank reserves are estimated at USD 11.0 trillion as of 2020, more than a sixfold increase since the Asian Financial Crisis, while holdings of non-traditional reserve currencies such as the AUD and CAD increased.

Additionally, the strategy provides specific policy guidelines for the investment of foreign reserves while taking into account some general criteria for determining the size of investment portfolios, the eligible asset classes, diversification, maximum maturity, as well as performance benchmarks. It is worth noting, however, that the size of liquidity and investment portfolio needs to be periodically reviewed based on forecasted liquidity needs, the expected medium-term foreign exchange needs of the country, and the assessment of the vulnerability of the balance of payments.

The investment strategy also sets guidelines for the assessment of return objectives, portfolio segments, currencies, acceptable instruments & counterparts, risk tolerance, risk parameters, benchmarks, performance attribution, and management processes are all defined in the policy guidelines.

The importance of a sound organizational setup for managing reserves efficiently cannot be sufficiently underscored. As such, ERLP also presented a proposed governance structure for CBY reserves management at the CBY. This is in the form of a three-tier governance structure where the responsibilities for strategic, tactical asset allocation, and actual portfolio management are clearly segregated. Once in place, this framework will facilitate a disciplined implementation of the asset allocation decision and should help in clarifying accountability, managing risks, and promoting a risk awareness culture across the organization.

A necessary requirement for transparency and accountability is a clearly specified investment process in combination with a sound governance structure. If the central bank decides on an active investment style, an increasingly popular practice is to have a three-tier governance structure comprising an Oversight Committee, an Investment Committee, and Portfolio Management units that are responsible for strategic and tactical asset allocation and actual portfolio management. This three-tier governance structure within the context of an investment process that allows active reserves management starts from a passively managed strategic asset allocation, adds a tactical asset allocation, followed by actual portfolio mandates. *The aim of this setup is to improve the risk-return profile of the strategic benchmark by providing the necessary flexibility to take advantage of short to medium-term investment opportunities.*

### III. DEVELOPING AN FX PLACEMENT/ALLOCATION FRAMEWORK, FX AUCTION SIMULATIONS AND TRANSITIONAL ARRANGEMENTS

The FX advisory team developed a comprehensive framework for the CBY to regulate market interventions and pursue FX placement/allocation activities utilizing the Refinitiv Platform with transitional arrangements over a two year period for a blended system, whereby the CBY could enter bids on behalf of participants, which as of yet do not have direct access to the platform. This is an FX auction regulatory framework that provides flexibility for the CBY to intervene as needed, with the aim of defending the stability of the Yemeni Rial and to step back to its traditional regulatory and oversight function once the interbank FX market is sufficiently developed to undertake this role. This regulatory framework is based on country best practices while accommodating the monetary policy specifics in the context of Yemen.

The recent mission to Egypt helped compare practices and illustrate the implementation experience and applications of the FX auctioning mechanism during periods of market volatility and in two distinct devaluation market events. The team also established a set of eligibility criteria/requirements for money exchange bureaus to participate in auction operations through bidding via commercial banks. The CBY also maintains the right to bid on behalf of agents directly under robust governance arrangements if they do not at the time being have access to the Refinitiv online platform. However, transitional arrangements outlined in the proposed auction regulations dedicate that within two years of regulation adoption, all bidders have to be on the Refinitiv platform. This will not only ensure an efficient FX auctioning mechanism for the CBY, but also guarantee that the infrastructure for the development of an FX interbank market is built in parallel.

The team engaged with the CBY on how to implement the initial FX auctioning system launch and how to use proxy bids on behalf of those who would not have access to the system in the early days of

rollout. For example, the CBY should publish the eligibility criteria on its website and also list these in its periodic reports, in addition to these being predefined on the Refinitiv platform during the onboarding phase. All licensed banks are eligible to participate. However, for foreign exchange bureaus, a set of criteria needed to be developed for eligibility to include this set of players with a strategic weight in the market in an orderly manner. These include:

- A minimum of a number of years of experience in market participation and in FX auctions.
- An assessment of the financial assets available for the money exchange house
- A risk assessment profile
- An assessment of the compliance prerequisites
- A commitment towards a strict financial reporting protocol
- A minimum number of branches available across the different governorates under legislative control
- A minimum requirement for technical/IT compatibility with the auctioning platform
- A signed approval on the list of violation criteria

The proposed timeline for implementation includes a live FX simulation in the coming quarter, adoption of the new FX auction guidelines, and agreeing on a regular auction calendar, albeit if initially the auctions would be primarily for price discovery and demonstrating process governance and integrity, until more reserves resources are accumulated, and the auctioning system will be fully functional on a large scale. During the initial phases, the CBY will be bidding on behalf of any organizations that do not have access to the Refinitiv platform as per the templates and strict governance requirements. However, to ensure in parallel, a vibrant FX interbank market develops, all system participants will need to migrate to the Refinitiv platform.

Annex 2 provides further details on proposed templates for banks or money exchange companies to be used in order to participate in auctions during the transitional phase when they do not have access to the Refinitiv platform yet. For example, the bank/exchange bureau must provide proof of licensing and sign a commitment form with referenced reporting criteria that must be met. It is also mandatory for commercial banks to open separate bank accounts that are hosted by the CBY for settlement purposes. The CBY must be authorized in written to complete any settlement transaction through access to these accounts.

In the case of exchange bureaus, they must arrange for financial coverage/collateral by their representing bank, which acts as guarantor. Settlement of auctions will be pursued between the CBY and the representing-bank, then another settlement transaction will take place between the bank and the money change company to close the cycle.

The actual exchange of funds between the CBY and commercial banks should take place via electronic transfers, not in cash. This is a challenging requirement given that the Yemeni economy is mostly cash-based; however, this arguably is a crucial element to ensure transparency and comply with banking supervision best practices.

The settlement of auction transactions would take place on a T+2 basis.

## Proposed Auction Regulations

The auction regulations were drafted, taking into account the urgent need to move the FX allocation/trading framework in a more transparent and competitive manner against the backdrop of an opaque regulatory and operational framework currently in place for FX placement activities by the CBY. Prior to drafting the proposed regulation, the FX advisory team reviewed a wide set of relevant financial laws, including: the CBY Law No. (14) 2000, Banks Law No. (38) 1998, Islamic Banks Law No. (21) 1996, as amended by Law No. (16) 2009, Money Exchangers Republican Decree No. (20) 1995, as amended by legislation No. (15) 1996, and Anti-Money Laundry and Combatting Terrorism Law No. (1) for 2010, as amended by Law No. (17) for 2013.

The proposed draft lays out the main requirements for participation in FX auction activities, eligibility criteria, and related transitional arrangements. In the initial two-year phase, Refinitiv as the FX auctioning system will be rolled out, with agents allowed to bid under robust governance arrangements through the CBY using the templates provided in Annex 2. However, two years from the date of adoption of the proposed regulation, all players would need to have direct access to the Refinitiv platform. This ensures indirectly that the core infrastructure needed to build an FX interbank market is being phased in immediately from the date of the proposed regulation adoption.

The draft also lays out the auction structure and allocation procedures. The basic guidelines provided in the draft regulation according to the CBY ensure the following:

1. CBY interventions will be made through frequent FX auctions, whereby auctioning becomes the ultimate way of intervention by the CBY in the FX market;
2. The auction amount is determined by the CBY as a proportion of the aggregate daily demand of foreign currency (with a maximum allowed participation by each bidder);
3. The eligibility criteria for participation of exchange bureaus are defined in the list of instructions detailed in Annex 2. Money exchangers are only permitted to participate in bids after obtaining their bidding license by the CBY. Money exchangers need to fulfill their obligations under existing laws and comply with existing licensing and reporting requirements.
4. The CBY will assign a score to each exchange bureau based on their overall compliance with the eligibility criteria. The top ten highly scored companies will be allowed to participate in the bid. While eligible money exchangers can directly participate in the auction, the settlement of the auction operations must take place through a commercial bank. Eligible money changers need to obtain a covering letter from a licensed commercial bank to cover the auction settlement on their behalf. On the other hand, non-eligible exchange bureaus can only participate in auctions indirectly, through bank representation, based on a signed contractual agreement. In such a case, the bank will be allowed to submit additional bid offers exceeding its regular quota on behalf of the money exchangers.

## FX Auction Simulations & Training

The team conducted two sets of FX auction simulations using the Refinitiv platform, an introductory simulation with a sample of four fictitious banks was conducted in March (Q2) when the senior FXRM team was in Aden. This involved all steps from setting auction eligibility criteria, bid structure, bid limits, and the different ways of adjudication. This was conducted for FXRM junior reserves management staff. A more advanced simulation with five fictitious banks was conducted in Cairo at the Refinitiv regional



training center with participation by both junior and senior FXRM staff, including the Deputy Governor. Both simulations included the following steps:

1. Using a pre-defined template on the Refinitiv FX auctioning platform for the auction or demonstration of how to create a custom auction template in the advanced case.
2. The auction participant onboarding process is done in the launch phase, with authorized persons and key data identified, in addition to eligibility to participate and to place bids on behalf of other parties.
3. Between the Refinitiv team and the CBY team, the auction parameters in both cases, number of bids by participants, bid maximum and minimum, minimum bidding and maximum bidding amount, auction duration, etc., were set.
4. A simulation for an auction was conducted over a 30-minute window.
5. Different auction adjudication and allocation processes were chosen, and the impact on final auction pricing was demonstrated.
6. Final auction announcement screens demonstrated and how they would instantly be communicated to participants on the Refinitiv platform.

## Description of Results

The auctions were announced for amounts of between USD 10 million to USD 50 million. Four bids and five bids were submitted by fictitious banks in the first and second auctions, respectively.

The bids were allocated on a pro-rata basis based on the submitted bid pricing. The simulation demonstrated fully the advantages of implementing the Refinitiv system for Yemeni players in the FX market and how the system could serve as the core infrastructure for developing the FX interbank market in Yemen. The next step is to launch a system-wide simulation in QIV with live participation from a number of banks and exchange houses followed by an actual auction of a notional account, to begin with, and setting the auctioning schedule to be adhered to, with regular auctions taking place thereafter.

*(See Annex 2 – FX - Auctions Policies, Procedures, Regulations and Transitional Arrangements (English))*

## IV. SYSTEMIC FOREIGN RESERVE ALLOCATION, STATUS REPORTING FRAMEWORK AND DATA WAREHOUSE APPLICATIONS

The data system at the CBY is quite rudimentary in nature, with no real-time linkages to input feeds and output feeds into reporting and monitoring functions, nor is a historical database being maintained. With the help of the ERLP team, a basic Excel spreadsheet for systemic foreign reserves allocations and status reporting framework was developed and finetuned in Q1. In Q2, this spreadsheet was refined, and in Q3, the spreadsheet was fully linked to the Refinitiv terminal to automatically update every time it is opened on the platform. The design of an FX data warehouse and requirements was completed in Q2, with implementation progressing significantly in Q3, with the standard reports being produced from the pilot Data Warehouse application, as described earlier.

This is presented in detail in Annex I. The design being implemented focuses on interfaces with several technological frameworks, including Refinitiv (Reuters), Bloomberg, SWIFT, and the Core Banking System and all their functionalities thereof. The design of the DWH caters for flexibility in adding new data sources either in the form of add-ons from the previously mentioned applications or new data

sources from which information can be drawn, or even new functionalities or add-ons from existing platforms.

Thus, as discussed above, a rudimentary reporting framework has been used to monitor foreign reserves allocations and status reporting. At this point, the system in place is adequate for rudimentary FX management needs. At the same time, modern data practices require a further significant upgrade with updated products and processes in the FX Reserve Management Department and a comprehensive Data Warehouse System (DWH). The system, for example, needs to be able to readily retrieve necessary information or produce standard reports that include charts and graphics. During Q3, ERLP IT experts successfully integrated input data to provide the basic reports on daily FX rates and monthly FX reserves positions produced on Excel, using the prototype DWH application. In addition, IT experts are working on a mapping interface to link SWIFT output directly to the DWH, first through an automated download from SWIFT to Excel, then from Excel to the DWH via an automated interface as well. This will eliminate human error and support the integrity of the process, while ensuring business continuity by not relying on human inputs.

A DWH has to provide the means to produce clean, accurate, timely, and integrated data. The DWH should allow for data to be drawn from all interfacing applications, including Refinitiv (Reuters) for a various suite of indicators and for capturing FX trading values and volumes for envisaged CBY auctions, and at a later stage, all FX interbank market transactions through the Refinitiv add-ons such as the Market Tracker function. The DWH should allow for data to be also drawn from the Core Banking System and fed back to the Core Banking System, from SWIFT systems, and SWIFT Scope output with the necessary interfaces developed for data input and output flows. A well designed DWH will thus allow the central bank to:

- Build or mine historical data,
- Make timely decision making on risk management,
- Conduct market research and analysis, and generate routine reports,
- Allow the CBY reserve management users to quickly access critical data from some sources all in one place,
- Provide consistent information on various cross-functional activities,
- Conduct ad-hoc reporting and query,
- Integrate multiple sources of data to reduce stress and load on the core system,
- Reduce total turnaround time for analysis and reporting, and
- Store a large amount of historical data. Allowing the CBY reserve management team to analyze different periods and trends to make future predictions.

As the FXRM practice within the CBY evolves, the DWH will also be utilized in a more advanced manner, with analytical functions being more developed and leveraged, with the basic core functions being utilized less or more or more run in an automated manner.

This game-plan is presented in detail in Annex 3. The design being implemented focuses on interfaces with several technological frameworks, including Refinitiv (Reuters), Bloomberg, SWIFT, and the Core Banking System and all their functionalities thereof. The design of the DWH caters for flexibility in adding new data sources either in the form of add-ons from the previously mentioned applications or new data sources from which information can be drawn, or even new functionalities or add-ons from existing platforms.

These, in turn, can give real-time updates of the reserves portfolio, provide return and risk metrics also in real time, and feed this data into the FX data warehouse system. The FX data warehouse will capture on a real-time basis the status of foreign reserve allocations and pricing based on the FX auctioning system described and will also produce reports on the FX interbank market once it starts functioning. In addition, the choice of the most appropriate portfolio management systems and information sources, will all feed into the status reporting frameworks via the appropriate interfaces. The aforementioned is planned for implementation over the coming two quarters.

The DWH will act as a second ‘brain’ integrated into all reserves management activities at the level of the Front Office, Middle Office, Back Office, in addition to playing a crucial role in business continuity as such. (See Annex 3 – FX - Reserves Data Warehouse)

#### **V. REPORT ON DMFAS INSTALLATION AND DEBT STATISTICS FORECASTING STATUS FOR FX RESERVES MANAGEMENT PURPOSES.**

As the debt management system is one of the key elements to optimal reserves management as it: i) provides accurate estimates of the outstanding debt stock and obligations at the level of the sovereign, which have to be covered by foreign reserves (this includes details such as loan terms and conditions, interest rates and benchmarks, installments payable, grace periods or moratoria if any). ii) DMFAS output will be linked to the reserves data warehouse; and iii) the ERLP proposed prototype reserves management policy is based on a segregated portfolio approach with three sub-portfolios: one for liquidity purposes, one for liabilities matching, and the third for yield enhancement and long term investment purposes. The system in question is DMFAS6.0, to be specific, regarding the version to be installed, which is important to specify.

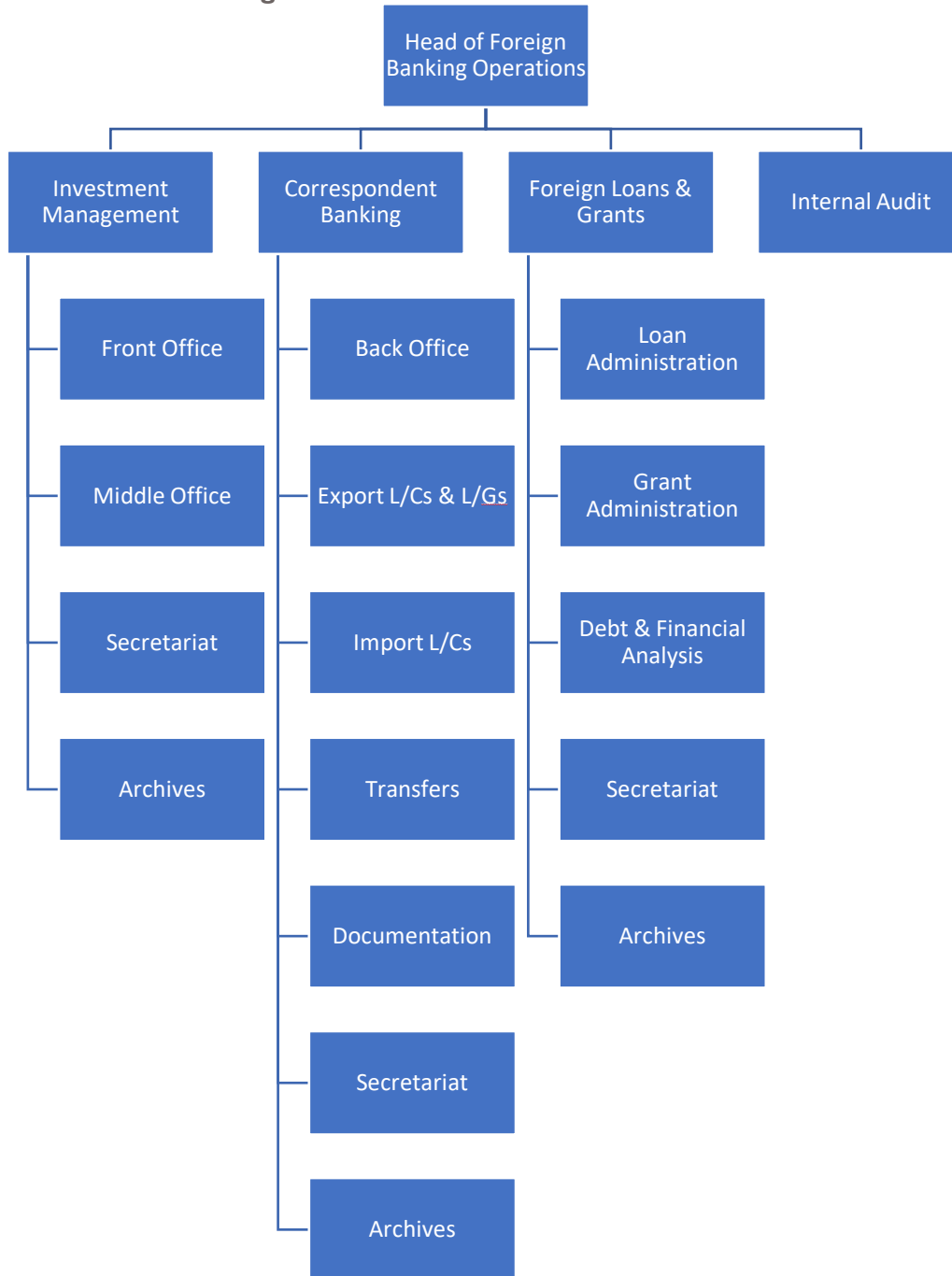
During Q3, the ERLP FX team was able to obtain a revised financial and technical proposal from UNCTAD for a total implementation cost of under USD300,000 (from c. USD500,000 being the previous financial proposal from DMFAS). Hardware costs were also estimated during the period for a total of c. USD100,000. The much lower cost proposal from DMFAS was due to a detailed investigation and presentations done by competing Crown Agents System (now branded as Meridien), which has rolled out a much more advanced system, with features such as straight-through processing (STP) and cloud-based applications (very useful for data back-ups and disaster recovery planning), with the cost of this system being quoted at c. USD300,000.

Crown Agents system includes features that will only be present in DMFAS7.0 expected to be rolled out by mid to end 2022; however, the ERLP team did not want to lose momentum on debt systems installation and implementation due to CBY board approval being granted during Q3 for DMFAS6.0 installation. The cost of advocating a new system, along with internet stability in Yemen anyway expected to hinder the use of the advanced applications Crown Agents currently offered, dictated pragmatism in moving ahead with DMFAS6.0 implementation to ensure that the informational output from this system for reserves management purposes is produced as early as conceivable, thereby minimizing any unexpected negative surprises or unexpected cash flow requirements that further jeopardize a precarious currency situation. DMFAS6.0 is expected to be purchased by the CBY using the bank’s own resources (board approval has been obtained in Q3), and training and data input and forecasts outputs to be implemented over the coming calendar quarters.

**VI. REPORT ON ADOPTION OF MODERNIZED FOREIGN RESERVES DEPARTMENT ORGANIZATIONAL STRUCTURE, FX RESERVES MANAGEMENT BEST PRACTICE GUIDELINES AND BUSINESS CONTINUITY PLANS.**

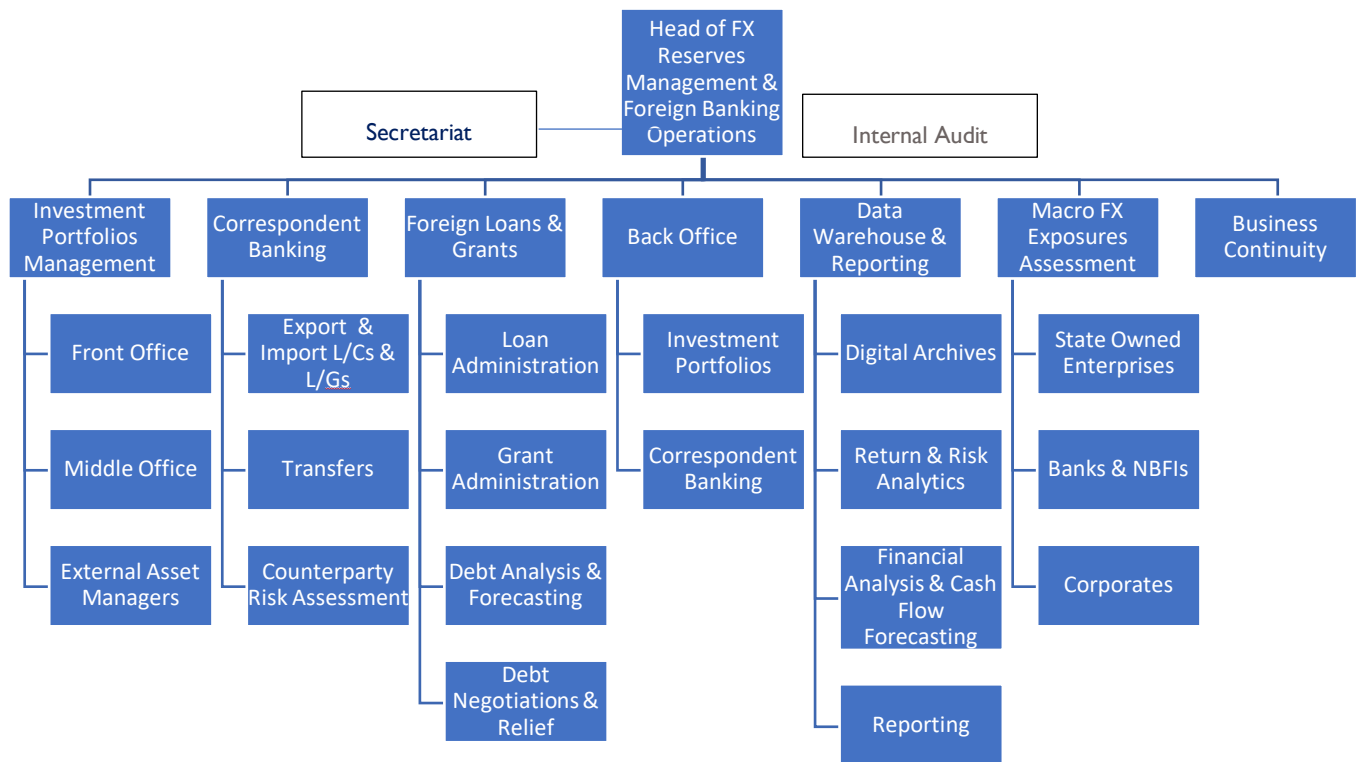
The following Figure 1 represents the existing FXRM department organizational structure, currently called The Department of Foreign Operations. However, we are proposing that the department be called FX Reserves Management and Foreign Banking Operations.

**Figure 1: FXRM Current Organizational Structure**



The following Figure 2 represents the proposed FXRM department organizational structure. The project is proposing that the department be renamed as FX Reserves Management and Foreign Banking Operations. This proposal was discussed in a workshop with the CBY senior FX Reserves Management Team in Q3 and was well received.

**Figure 2: FXRM Proposed Organizational Structure**



The proposed organizational structure has seven Divisions as follows: i) Investment Portfolios Management; ii) Correspondent Banking; iii) Foreign Loans and Grants; iv) Back Office; v) Data Warehouse & Reporting; vi) Macro FX Exposures Assessment; and Business Continuity.

The first four divisions exist in the current structure; however, ERLP is proposing some changes to their organization, while the three latter divisions are new divisions that we are proposing to be created.

**i) Investment Portfolios Management**

This division is proposed to consist of a front office, middle office, and we are proposing adding an external asset managers (oversight) sub-division. This is looking to the future once the CBY starts building its reserves management balances and implementing the proposed investment strategy, which includes minor allocations to external asset managers in line with global best practices. The new sub-division will be responsible for managing the contractual relationships with the external asset managers, fee negotiations, reporting, and oversight of external asset manager mandate targets, returns, and risks.

We propose removing the archives and secretariat to sit at a centralized level for the whole FXRM department.

## **ii) Correspondent Banking**

The division is proposed to consist of export and import L/Cs and L/Gs as one merged sub-division rather than two in the existing structure; transfers and a newly formed sub-division for counterparty risk assessments, where it is envisaged that dedicated analysts will be monitoring specifically periodic financials and all relevant data analytics sources on correspondents. In the financial services industry, on average, an analyst is in charge of anywhere between 7 to 15 financial institutions. As the CBY reengages with the outside world, the number of correspondents it is engaged with will increase significantly, and therefore dedicated resources to monitor these relationships will be crucial. An unfavorable correspondent banking relationship would result in two undesirable risks: the risk of financial risk if the counterparty defaults and reputational risk about the capacity of the CBY to assess counterparty risk.

This does not conflict with Middle-Office functions but will mean they will focus on limit implementation and breach monitoring rather than assignment. The correspondent banking division is the first natural recipient of correspondent bank financials and other information, so by placing this sub-division in the same division, this avoids duplication or loss of information between divisions.

We are proposing that the current back-office operation is reconfigured as a new division to handle both Investment Portfolios Management transactions back office and correspondent banking back-office activities; in order to ensure full organizational segregation and enough resources to cover the expected growth in the volume of transactions as reserves grow exponentially.

We have also recommended that secretariat and archival functions are again removed and centralized, the latter within the proposed newly created data warehouse division and in a digitized manner.

## **iii) Foreign Loans & Grants**

For this division, we are proposing the addition of one sub-division to oversee debt negotiations and debt relief. Yemen is about to embark on many discussions on the topic, and having dedicated resources to cater to this would help optimize renegotiated terms in an informed manner.

It is also proposed to move the secretariat and archives to a centralized structure.

## **iv) Back Office**

For this new division, it is proposed to handle both Investment Portfolios Management transactions back office and correspondent banking back office to ensure full organizational segregation and enough resources to cover the expected growth in the volume of transactions as reserves grow exponentially, as mentioned earlier.

## **v) Data Warehouse & Reporting**

This is a proposed new division that will act as a second 'brain' and 'memory' store for the FXRM Department. It is proposed to include the following sub-divisions: i) Digital Archives (centralized archives for the whole department that are digitized and can be accessed by anyone with the right

authority access level); ii) Return and Risk Analytics Sub-Division, which uses all the historical data and forecasts uploaded to produce the required the return and risk analytics for the new proposed investment portfolio policy framework and its three segregated portfolios; iii) Financial Analysis and Cash Flow Forecasting Sub-Division; as all data feeds into the data warehouse, this sub-division will be in the best position to most efficiently produce short-term, medium-term and long-term cash flow forecasts to inform reserves management decision making.

This sub-division will also feed in this information to the other divisions and continuously obtain updates with a two-way channel flow occurring.

It will also present its reports through the head of the division and a dotted line to the investment committee to provide the necessary information for its short-term, medium-term, and long-term decision-making processes for optimal reserves portfolio management.

Finally, the fourth and last sub-division for the new proposed Data Warehouse & Reporting Division is the sub-division in charge of periodic and ad-hoc reporting. This sub-division will be producing all reporting on FXRM portfolios on a periodic basis, including any requested ad hoc reports.

#### **vi) Macro FX Exposures Assessment**

This division could be set up at a later stage as it will be aggregating information on FX exposures at the level of the macro economy. These area exposures would ultimately result in requests to the Central Bank of Yemen to cover any shortfalls that might arise on the back of the principal borrower not being able to provide the required foreign currency. The CBY, as the Lender of Last Resort (LoLR), would have to step in. If the CBY does not have a clear picture of the magnitude and maturity of these exposures, it could be faced with sudden requests for large FX outlays which were not forecasted or accounted for. It is proposed to have sub-divisions for assessments of FX exposures of a) state-owned enterprises; b) banks and non-bank financial institutions; and c) corporates. A large exposure by a state oil and gas corporation, for example, could translate into a liability (implicit or explicit) for the Central Bank of Yemen to cover.

**vii) The seventh and last proposed new addition to the department divisions is a business continuity sub-division. While there is a function at the level of the CBY established with project support to help cover basic CBY wide business continuity parameters, the sensitivity of FXRM activities and foreign banking relations means that it is crucial to also have a dedicated in-department division for this.** It is proposed to handle all backup and disaster recovery planning to ensure no losses occur because of lack of secondary trading venues, or data backed up on servers, or integrity of the DWH compromised, for example. Trading disruption, for instance, during periods of market volatility could cause high losses.

This sub-division is also proposed to have protocols and processes tailored specifically in the case of disruption to any FXRM activity to ensure minimum impact on business continuity.

It is envisaged that the approval of the proposed structure will take place next quarter, and implementation phased in by year-end 2021. Priority implementation areas of focus for organizational restructuring and onboarding of additional human resources within the department include investment portfolios sub-division; correspondent banking sub-division; back-office sub-division; Data Warehouse and Reporting; the Back Office sub-division; and business continuity subdivisions. While the FX Macro

Exposures Assessment sub-division is more forward-looking in nature and could be implemented subsequently.

(See Annex 4 – FX - Management Proposed Organizational Structure & Job Descriptions (English))

## **VII. REPORT ON TRAINING ON BEST PRACTICES FX RESERVES MANAGEMENT.**

The granular holistic reserves management best practices program and workshop were designed over the course of Q1 for delivery over multiple quarters. The objective of this tailored program on FX Reserves Management Best Practices for the CBY is to provide capacity building on the pillars of modern portfolio management and enable the formulation of and pilot application of a CBY reserves management policy.

The program is structured in two parts: (i) Modern Portfolio Management & Global Capital Markets and (ii) FX Reserves Management CBY Applications, with the latter to be based on Yemen-specific data inputs provided by the CBY. It ran for two days in July 2021 in Cairo, Egypt, in a face-to-face setting, and another two days are planned for September 2021 virtually, distributed across nine sessions.

At the end of the program, participants are expected to understand, calculate, synthesize, and apply modern portfolio management analytics, techniques, and policies to the practice of reserves management at the CBY. Applications will be both in line with international best practices, in addition to having a Yemeni-focused implementation strategy.

It is envisaged that the rest of the program will be delivered over the coming two quarters. The training sessions are being staggered in order to ensure that between the programmed sessions covering the topics outlined, institutional capacity is being developed at the CBY in a manner that is effectively synchronized with the implementation of new advanced FX management guidelines and practices.

More details are provided in Annex 5 on the training program, while Annex 6 is a detailed Trip Report on the mission to Cairo, Egypt, in July 2021, including the training activities.

## **I.1.3 PAYMENTS SYSTEM REFORM**

### **BACKGROUND**

ERLP has continued its close collaboration with the CBY to jumpstart the critical process of transforming and modernizing the basic payments system regulatory framework and related technical and institutional infrastructure in Yemen. Project experts have helped the PSD restructure, hire/upskill additional staff, and advance implementation of the technical improvements designed to achieve the semi-automated functionality of the check clearing system. Moreover, with support from ERLP experts, the CBY approved the payment service provider (PSP) regulation and progressed toward adopting the foundational eMoney regulation.

### **QUARTERLY WORK ACTIVITIES/DELIVERABLES**

By the end of Q3, with close support from ERLP, the CBY had adopted the proposed Payment System Department (PSD) organizational structure, recommended job descriptions, and hired five new staff. The project provided the new PSD personnel with targeted training, empowering them with the required skills to begin performing the basic operations of the department. The CBY also, with project support, adopted a white paper on the establishment of the National Payment Council.



A significant milestone achieved during the quarter was the CBY’s launching of same-day near real-time inter-bank settlement, using SWIFT and the current core banking system. The new automated check clearing system was successfully running during the quarter and is expected to be fully operational by mid-Q4. Additionally, during Q3, the project reached an advanced stage of drafting the RTGS and ACH tendering documents, to be adopted and published by the CBY next quarter on a best-efforts basis.

**Table 3: Q3 Payments System Activities and Deliverables**

ACTIVITIES	DELIVERABLES
Continue provision of training/outreach programs to CBY payments system division, covering core payment system functional responsibilities.	1- 6 targeted training sessions/outreach programs provided to CBY payments system division, covering core payment system functional responsibilities.
Monitor continued implementation of automated check-clearance system.	2- Implementation of new automated check-clearance system running in parallel with the existing manual system
Refine as needed further “go-live” implementation of near-same day electronic interbank settlement system for the commercial banking sector; and expand implementation to include interbank short-term liquidity management (borrowing/lending) activities on a pilot basis.	3- “Go-live” implementation of near-same day electronic interbank; [settlement system for the commercial banking sector provided, including its expansion to cover interbank short-term liquidity management (borrowing/lending) activities].
Further refine/expand MFS-based public sector salary payment program (in coordination with ERLP fiscal team).	4- Further refinement/expansion of the MFS-based public sector salary payment program provided.
Facilitate adoption of “White Paper” for the establishment of a National Payments Council, designed to facilitate inter-agency stakeholder coordination/outreach on payment system action plan reform implementation.	5- “White Paper” for the establishment of a National Payments Council adopted.
Develop business and technical requirements for automated real-time gross settlement (RTGS) and small-value net settlement (Automated Clearing House/ACS) tender documentation.	6- Development of the business and technical requirements for automated Real-Time Gross Settlement (RTGS) and small-value net settlement (Automated Clearing House/ACS) tender documentation

**I. TRAINING AND CAPACITY BUILDING FOR PSD STAFF**

The CBY concluded the recruitment process for the PSD during the past quarter, adding five new hires to the department, thereby enabling more efficient execution of key departmental functions. ERLP also delivered focused training for new employees on a variety of topics, including intense training sessions on the SWIFT and core banking system modules. Eight targeted SWIFT training sessions were provided. These covered the following topics:

- Introduction to Standards MT BIC (Business Identifier Code)
- Introduction to the Payments Market
- Financial Community and Messaging Needs

- Customer Payments and Transaction Reporting
- Bank Payments and Transaction Reporting
- Transaction and Account Reporting
- Customer Payments Using the MT 103 with the Serial Method
- Customer Payments Using the MT 103 with the Cover Method
- Using MT 202 COV
- Cancellation, Investigation and Exception Handling of MT 103 Messages
- Bank-to-Bank Payments with MT 202
- Cash Management Using MT 200, MT 202, and MT 210
- Payment Instruction Status and End of Day Account Reporting (MT 900, MT 910, MT 940, MT 942, MT 950)

These modules were followed by three weeks of practical, on-the-job training covering the SWIFT environment and core banking system. ERLP advisors were present on-site, performing the tasks step-by-step together with the CBY team, which added significant value to the capacity-building interventions.

ERLP also provided a workshop on mobile financial services (MFS), highlighting the effective role these services can play in increasing financial inclusion and access to financial services in Yemen. It covered the key benefits involved in advancing payment service efficiency and ready availability and the critical role it can play in providing alternatives to traditional payment methods. The ERLP advisory team provided the PSD with a strong understanding of e-money outreach opportunities and regulatory/operational pre-requirements, thereby putting the department in a strong position to play an effective oversight role once the eMoney regulation is issued. It is expected that these training activities will serve as a catalyst for senior management to take concrete follow-up steps to adopt the crucial eMoney regulation to facilitate the introduction of MFS to Yemen through private payment service providers.

The PSD will be strengthened and further operationalized through additional planned training during Q4. This targeted capacity building is expected to significantly impact the implementation of a modernized national payment system and contribute to strengthening the outreach and diversification of the financial intermediation system.

## II. IMPLEMENTATION OF AN AUTOMATED CHECK CLEARING SYSTEM

During Q3, ERLP made significant progress on building a new customized check clearing system and enhancing its operational performance. ERLP experts on the ground in Aden directly mentored and interacted with the CBY system developers on the new check-clearance implementation process, using the most up-to-date technology available from advanced payment system providers. This initiative, in turn, has helped the CBY avoid incurring the substantial expenditures it would have faced had it attempted to procure an integrated system on its own, as well as the considerable associated time and effort needed to implement a brand-new system from scratch. Looking ahead, the new system will be further enhanced by gradually adding additional features and relying increasingly on the participation of the CBY professionals that ERLP has trained.

As of the end of Q3, the system was being run in parallel with the existing check-clearance process; in order to confirm that there were no system imbalances and that the data coming from the clearing process was accurate. It is expected that the new system will be fully operational during the next quarter, replacing the prior manualized method. Developing advanced functions within the system and

participant bank interfaces and linking the system's inputs and outputs to the data warehouse for archiving, tracking, and preparing statistical and comparison reports - are among key follow-on steps that will be worked on during Q4 as well.

Major goals that will be met as a result of the system's installation and development include:

1. Improving the clearing house's efficiency levels through additional automation advancements;
2. Further reducing semi- manual operational elements and adding new features to improve input accuracy. This will make clearance processes more manageable, controlled, faster, traceable, and minimize the likelihood of a system breach;
3. Improving the clearance cycle by allowing banks to conduct operations through an application interface; and,
4. Automatically receiving and extracting reports on clearance operations and related settlements, for both the operator and the participant.

In addition to these system development efforts, the CBY officially approved the Check Printing Manual developed by ERLP during the past quarter. The Manual obliges banks to produce checks with advanced technical and security specifications, using the magnetic ink character recognition (MICR) line of characters at the bottom of the checks, thereby enabling them to be read electronically. The CBY subsequently initiated follow-up discussions with banks, outlining the procedures necessary to comply with the updated specifications (with direct assistance from ERLP).

These breakthroughs should greatly increase public confidence in checks, which are one of the most important non-cash instruments used in Yemen. Checks had gradually lost their perceived value over the past decade, and their use decreased significantly owing to a lack of public trust, as well as resistance to the long settlement cycle. The newly printed checks will have important technical and security features to protect against forgery and manipulation. Reluctance to use checks is in this regard expected to diminish; as the continued development of the clearing system reduces clearance times, and checks with enhanced security are introduced.

Looking ahead, ERLP advisors will continue to provide the necessary support for the CBY and banks as the new checks and enhanced clearance system are fully deployed. This initiative is delivering a highly automated check clearing system and endow checks, which is expected to endow checks with a much higher perceived value in the financial community in the future.

### **III. “GO-LIVE” IMPLEMENTATION OF THE SAME-DAY NEAR REAL-TIME ELECTRONIC INTERBANK SETTLEMENT SYSTEM FOR THE COMMERCIAL BANKING SECTOR.**

During the first and second quarters, the project addressed needed improvements in the core banking system, making the SWIFT environment more stable for both the banks and the Central Bank, and establishing the PSD, and upskilling its staff to perform core payments department functions. Pilot runs of same-day, near real-time settlement service involving five banks and the CBY, were also completed, which helped identify process flaws and solutions to fix them.

During Q3, ERLP conducted related additional field visits to commercial and Islamic banks. The visits assessed their readiness to participate in the project and identified technical and institutional obstacles and issues that would need to be addressed to support implementation, as well as helping define

practical solutions to meet these challenges. Additionally, detailed service guidelines and operational frameworks were developed jointly with the PSD team during the quarter.

Progress across these areas led to the launch of the same-day near real-time settlement for domestic funds transfers through SWIFT late in Q3, as well as the adjoining implementation of the improved CBY core banking system. The near real-time settlement project was successfully launched by applying a gradual transition methodology that included the following steps:

1. Providing the necessary theoretical and practical training to equip the department's employees with the needed technical competencies.
2. Providing simulations of real-world operations.
3. Undertaking and completing the testing phase on the SWIFT testing environments at the Central Bank and participating commercial banks, as well as the test environment of the CBY core banking system.
4. Undertaking a related testing phase with all banks in the Republic of Yemen on the real/production SWIFT environment, which in turn entailed sending exchanged SWIFT messages between banks through the Central Bank with a zero-result settlement (designed to ensure the integrity of the real environments — as well as bank commitment and readiness).
5. Holding an in-depth coordination meeting inside the CBY and deciding on all transactions that would be handled by banks via the use of SWIFT as an alternative to the pre-existing traditional process - and agreeing on the launch date.
6. Consulting and coordinating with all banks and notifying them of the launch date by issuing an official circular instructing all banks to utilize SWIFT messages as a substitute for the previous cash and manual work procedures and effectively defining the transaction types.
7. Official launch achieved.

This new automated clearing & settlement mechanism will greatly accelerate the time-efficiency and predictability of financial intermediation processes - this is the first time it has been done electronically since the move to Aden. Now, a large number of transactions can be cleared on a daily basis, which will again (1) encourage greater use of the banking system, (2) help improve/maintain trust in the CBY, (3) potentially facilitate the transfer of humanitarian assistance and public salaries across the country through the CBY, and (4) allow the CBY to perform its settlement function effectively.

In addition to the above objectives, one of the most significant outcomes of this project's implementation is the robust activation of the PSD's core operations and functions, which will in turn help facilitate the eventual transition to the Real-Time Gross Settlement (RTGS) stage of payments system adaptation. This will help leverage a significant evolutionary shift/advance in the payment industry in Yemen once applied (See VI below).

ERLP will, in this regard, closely monitor outcomes of the near same-day system during the coming months and introduce possible additional SWIFT-based activities; such as expanding the number of transactions that can be passed through SWIFT and preparing for a pilot program for liquidity management, interbank lending, and borrowing purposes.

#### IV. FURTHER REFINEMENT/EXPANSION OF THE MFS-BASED PUBLIC SECTOR SALARY PAYMENT PROGRAM PROVIDED.

ERLP activities during the previous quarters included analysis of the mechanisms used to pay public sector salaries, direct dialogue with the parties involved in the process (the Central Bank, the Ministry of Finance, the Ministry of Civil Service, and the Central Bank), and the creation of a concise action plan for an electronic and transparent salary payments project, based on mobile financial service (MFS) provision. The project's initial efforts in these areas have been well-received by all parties concerned.

ERLP has intensified efforts to assist the CBY with the important prerequisites for the MFS salary payment service, namely the technical and regulatory infrastructure. The recent issuance of the aforementioned Payment Service Providers (PSP) regulation, and current work on the eMoney regulation, represent major progress in this direction, providing the basic infrastructural foundation for executing MFS-based salary payments. The publication of the PSP and eMoney regulations and the related technical and institutional preparations should effectively position PSPs to provide MFS by late CY 2021 or early CY2022. The ERLP team will assist CBY in collaborating effectively with the MOF to jumpstart concrete planning for the design and implementation of a pilot salary payments initiative.

ERLP has, in this regard, prepared an initial action plan to implement a pilot electronic salary payment program. This has been done in cooperation with the MOF, Ministry of Civil Service (MOCS), and the CBY. The plan envisages that CBY, the MOF, and the MOCS would select one or two agencies and a bank with the technical capacity to participate in the program effectively.

During Q4, it is expected that joint discussions will be held with CBY, MOF, and the MOCS in this regard, with the aim of forming work teams, agreeing on a timeline, and facilitating the initiation of the pilot project by the end-year of 2021 if possible. This, in turn, will likely require targeted technical support to MOCS to update relevant employee databases and enhance line agency communications with spending units in government agencies and communications with the MOF. ERLP will seek to define and address these requirements in Q4.

#### V. "WHITE PAPER" FOR THE ESTABLISHMENT OF A NATIONAL PAYMENTS COUNCIL ADOPTED.

ERLP recently drafted a white paper for the establishment of the National Payment Council. The Council is intended to provide a platform for all stakeholders in the payment services industry to discuss, consult, cooperate, and pursue various activities on a voluntary basis. This body is expected to help facilitate the growth and development of the Yemeni payment services sector; in a manner that maximizes its impact on broad-based provisions of a range of modern financial intermediation services in Yemen.

A detailed presentation on the concept of the National Payments Council was made to the leadership of the CBY and the PSD Director during Q2. All parties welcomed the idea and expressed confidence that it would prove important to the CBY in helping foment the development of a modernized national payments system in Yemen. The white paper was subsequently submitted to the CBY Governor and the Board of Directors for approval late in Q2.

ERLP subsequently followed up with CBY senior management during Q3 on the adoption of the White Paper, further emphasizing its strategic importance for purposes of facilitating the robust shared stakeholder vision required to drive payments system upgrading in the near-to-medium term. CBY senior management and the Board of Directors subsequently adopted the white paper during the latter stages of Q3, under the rubric of the National Payment Committee. This is expected to be followed in Q4 by execution of the following steps:

1. CBY and ERLP will prepare a draft constitution or “rules” for the Committee.
2. CBY and ERLP will prepare the NPC’s first strategic plan.

#### **VI. DEVELOPMENT OF THE BUSINESS AND TECHNICAL REQUIREMENTS FOR AUTOMATED REAL-TIME GROSS SETTLEMENT (RTGS) AND SMALL-VALUE NET SETTLEMENT (AUTOMATED CLEARING HOUSE/ACH) TENDER DOCUMENTATION.**

The CBY currently does not provide RTGS and ACH services, which are core requirements for allowing the real-time discharge of settlement and clearing obligations. ERLP has, in this regard, initiated work with the CBY on the preparation of a tendering document that will allow CBY to help CBY solicit proposals for suitable RTGS and ACH systems.

ERLP experts ERLP have in this regard initiated development during Q3 of three documents critical to this process:

1. A core draft solicitation document (RFP) that provides a background to the tender, the terms and conditions under which the tender would be issued, as well as a description of CBY’s overall strategic requirements for RTGS/ACH establishment;
2. A Microsoft Excel procurement spreadsheet that contains detailed technical requirements for both the RTGS and ACH systems; and,
3. A Microsoft Excel spreadsheet that provides a systematized format for scoring and tabulating bidders' proposals in a transparent and consistent manner.

All three documents will be provided to the CBY and reviewed with them in detail during Q4. Following this process, it is expected that CBY will adopt and publish the two procurement documents, and retain the third document for its internal proposal technical evaluation phase. It is currently anticipated that the tendering process could begin by the end of Q4.

This exercise will allow CBY staff to gain experience in the procurement process for modern payment system adaptations, and to acquire a set of procurement documents that may be further adapted for future solicitations as well. As a result of this tendering exercise, the CBY will be able to obtain appropriate software from one or more reputable vendors, and deploy that software in a timely and cost-effective manner; through the utilization of a fully transparent procurement process. CBY staff, both within the PSD and at the executive level, have been strongly supportive of this approach.

*(See Annex 7– Payments - Business Requirements for ACH & RTGS Solutions for The Central Bank Of Yeme)*

#### **NEXT STEPS**

During the next quarter, ERLP will continue to provide training and capacity building for the PSD team; that will allow the CBY to further expand the same-day near real-time settlement service and support

an increased volume of transactions through SWIFT. These steps will further improve the time and cost-efficiency of settlement processes. In addition, the CBY will continue to fine-tune the implementation of the automated check-clearance system; adding more functions to shorten the clearing and settlement cycle, and further encouraging the expanded use of checks. Further enhancements to the check-clearing service will help to ensure an increase in the number of checks in circulation, and reduce the amount of cash used for payment purposes.

ERLP will also support and facilitate CBY's final adoption of the eMoney regulation. This again represents the core remaining regulatory component required for conducting electronic payments (including for public salaries. It will further complement the PSP regulation published during Q3.

ERLP will also, as referenced above, plan to finalize during Q4 the comprehensive business and technical requirements document for the procurement of automated real-time gross settlement (RTGS) and small-value net settlement (Automated Clearing House/ACH) systems. ERLP will then work proactively with CBY to facilitate the publication of the procurement documents for an open and transparent tendering process.

## **1.1.4 COVID-19 MACROECONOMIC, FISCAL, AND FINANCIAL IMPACT PUBLIC SECTOR RESPONSE AND POLICY RECOMMENDATIONS**

### **INTRODUCTION**

The spread of COVID-19 has caused a major shock to the global economy, and Yemen was not spared from its impact. Given the country's challenging political and economic situation, Yemen was already struggling with macroeconomic instability, food insecurity, disruption of public services, and mounting constraints to social and humanitarian aid before the crisis.

The dual shock of the pandemic crisis and the global oil price deterioration (oil is the primary source of government revenues in Yemen and a key source of foreign currency) further escalated the pressure on the exchange rate, leading to a significant depreciation of the YER. Depreciation has, in turn, raised inflation levels because the economy mostly relies on imports.

The global economic crisis further impacted foreign remittances (especially from the Gulf countries, where most Yemeni expatriates reside), which dropped by approx. 20 percent. That drop, along with a severe decline in foreign reserves, led to a liquidity squeeze. The decrease in remittance inflows also worsened the current account and balance of payments (BOP) deficit, which reached \$1 billion by the end of 2020.

The loss of oil revenues has increased the government deficit, which is mostly financed through monetization. Broad money (M2) witnessed an increase of about 15 percent during CY2020, compared with 11.5 percent in 2019. This increase in the money supply was consistent with requirements for maintaining a minimum level of economic buoyancy in the face of the contractionary pressure associated with the pandemic crisis. It was mostly driven by an increase in direct financing of the budget deficit, in a manner consistent with the 2020 annual monetary plan.

## THE IMPACT OF THE PANDEMIC CRISIS ON THE OVERALL ECONOMIC OUTLOOK IN YEMEN

Before the pandemic crisis, Yemen had witnessed a year of relative economic stability, which was reflected in a positive growth rate for 2019, and that was the second year of growth in a row. This growth was primarily driven by the recovery of oil production and exports, which reached its peak in 2019 at \$1.1 billion after a contraction of about 40 percent during 2014-2017.

The outbreak of the COVID-19 pandemic in early 2020 and the subsequent lockdowns and collapse of oil prices generated contractionary macroeconomic adjustment pressures worldwide. This included a significant reduction in export demand for oil and other primary commodities and a concurrent reduction in international commodity prices. In conjunction with the pandemic spread, the oil price drop has had significant adverse effects on Yemen’s economy, as discussed in detail hereafter.

**Table 4: COVID-19 Impact Activities and Deliverables**

ACTIVITIES	DELIVERABLES
Disseminate a monthly “tracker” instrument that can be utilized by CBY in monitoring COVID impact on the major macro-financial performance areas enumerated above.	I. A comprehensive final report on all related activities. This report will include a targeted game-plan for establishing selected COVID-related policy/ regulatory/institutional response interventions, as well as the final version of the tracking toolkit to be utilized by CBY in monitoring COVID impact on the major macro-financial performance areas.
Finalize and support initial implementation of selected COVID-related policy/ regulatory/institutional response options/interventions by CBY; designed to help buffer the impact of the pandemic on macro-financial stability and the level and efficiency of financial intermediation services.	

### I. IMPACT ON ECONOMIC GROWTH AND PRICES

The outbreak of the pandemic in early 2020 and the subsequent lockdowns and collapse in oil prices badly disrupted global markets and created severe recessionary pressures internationally. These factors have had significant adverse effects on Yemen’s economy, which led to a decline in activity in key sectors such as oil, fishing, wholesale and retail trade, transportation and communication, and construction, resulting in an estimated contraction of real GDP by 8.5 percent in 2020.

The fall in government revenues associated with the pandemic crisis and the drop in oil prices led to significant reductions in public salaries and delays in pension reimbursements, further slowing down aggregate demand. Yemen also witnessed exceptionally heavy rainfalls in 2020, which caused intense flooding, infrastructure damage, and human casualties.

Real GDP is projected to contract by 2 percent in 2021 before reverting to a positive growth rate of 1 percent in 2022. However, Yemen’s economic outlook is subject to substantial downside risks related to the uncertain evolution of the pandemic and the adverse impacts of the protracted war. A



synchronous monetary, fiscal, and financial policy response would help cushion the pandemic economic impact on households and SMEs.

Inflationary conditions worsened somewhat in 2020 after relative stability in 2019. The significant depreciation of the Rial, the lack of foreign reserve buffers at the Central Bank of Yemen, growing uncertainty, and increased dollarization contributed to rising inflationary pressures. Market surveys indicate that average food-price inflation exceeded 30 percent in 2020. The annual inflation rate was estimated at around 25 percent, up from an estimated average rate of 10 percent in 2019, and is projected to remain high at around 30-35 percent in 2021.

## II. IMPACT ON FOREIGN EXCHANGE

The pandemic crisis led to a significant depreciation of the YER in CY 2020, based on the crisis's multiple adverse direct and indirect effects. These included the decline in oil prices and the significant drop in remittances, in addition to the depletion of the \$2 billion that Saudi Arabia had deposited in the CBY in 2018 — all of these factors placed serious downward pressures on the exchange rate.

The Yemeni Rial depreciated to 670 YER per USD at the end of CY2020, from 591 YER/USD at the end of CY 2019. The exchange rate had crossed the threshold of 900 Rials per dollar on several occasions during the last quarter of 2020 and the first half of CY 2021. These trends have led to a substantial shortage of foreign currency in the local FX market, hindering the country's ability to finance its imports of essential goods.

## III. IMPACT ON THE BANKING SECTOR

Seventeen banks are operating in Yemen, all of which (except Al Ahli Bank) are headquartered in Sana'a. The banks provide various services to the public through their 400 branches and offices spread across the country. Conventional banks account for about two-thirds of the market share, while Islamic banks and microfinance institutions account for the remaining one-third. Banking services are concentrated mainly in the major cities. Secondary cities and rural areas lack most financial services, except for remittance transfers (handled through commercial bank branches, exchange bureaus, and post offices).

Yemen is a cash-based economy with limited intermediation capacity, including grossly inadequate payment instrumentalities. The institutional and commercial capacity of the banking system is very fragile, and the confidence of the public in the capacity of the financial system and financial service provision is limited. The low rate of bank deposits in Yemen — 2,565 billion rials, which is approximately US\$3.9 billion, for a population of 30-plus million — reflects the significant lack of public confidence in the Yemeni banking system.

The liquidity squeeze in Yemen started before the pandemic crisis has escalated further subsequently. A huge concentration of bank assets in government securities (bills, bonds, and Sukuk) represents nearly 60 percent of the banking sector's total assets. Many banks are unable to liquidate their investments to meet the reserve requirements for withdrawals by depositors. As a result, many banks imposed a ceiling on cash withdrawals, further lowering public confidence in the overall financial system.

The decrease in public revenues, given the slowdown in oil production and the collapse in oil prices, restricted the overall liquidity position of the banking sector. Banks have also lost a significant portion of their assets, which had been deposited in Lebanese banks. This situation led to two significant challenges:

the number of non-performing loans (NPLs) increased while the available lending resources were further contracted.

Within this context, the pandemic has adversely affected the NPL portfolio in the banking sector, spreading beyond the segments that have been directly hit by the economic downturn, such as oil and construction services, to impact the broader economy as well as a result of the resulting shortfalls in import capacity.

In this regard, ERLP experts have recently reviewed the quarterly financial data of a few banks over an eight-period ending December 2020. The sector's key prudential indicators have fluctuated in an ascending risk direction over the period but are showing some signs of stabilization. For many banks, loan portfolios remain very low at less than 20 percent of assets. Many banks appear to have experienced a critical rise in non-performing loans over the period in review, approaching the 90% mark, followed by corresponding adjustments to loan provisioning, which have directly impacted income and the ability to increase reserves. Over the past few years, the country's adverse security, political and economic climate experience had severely limited the expansion of financial intermediation activities and constrained the capacity of commercial banks to diversify their asset portfolio. In this regard, most banking sector assets are being invested in government debt (which is being rolled over annually). The current pandemic has further worsened that situation.

Moving ahead, ERLP will again be working with the CBY Bank Supervision Department to systematically update financial performance data for all banks through 2020 and 20; in order to provide the clearest picture of the financial status of commercial financial institutions in general, as well as the ongoing impact of the pandemic crisis on bank liquidity and solvency conditions.

#### IV. IMPACT ON KEY MONEY SUPPLY AND LIQUIDITY INDICATORS

CBY pursued a moderately expansive monetary policy in response to the crisis, to ensure the smooth functioning of the payment system and support overall business requirements, and to cushion the contractionary impact of new domestic supply and demand constraints resulting from pandemic containment measures (market closures, bans on public gatherings, increase in transport costs, etc.).

Broad money (M2) witnessed an increase of about 15 percent during CY2020, compared with 11.5 percent in 2019. This increase in the money supply was consistent with requirements for maintaining a minimum level of economic buoyancy in the face of the contractionary pressure associated with the pandemic crisis. It was mostly driven by an increase in direct financing of the budget deficit, in a manner consistent with the 2020 annual monetary plan. This plan proved to be highly effective as it helped rationalize the money supply and limit the inflationary pressure caused by monetary emission. The effects of the pandemic could have been significantly worse without this accommodative but prudent monetary framework.

For CY2021, the annual monetary plan projected broad and base money to grow by 18.3 percent and 19.1 percent, respectively, consistent with the average inflation rate of approximately 25 percent. In the absence of a foreign reserve buffer, a strong commitment to the annual monetary plan targets remains the only tool at the CBY's disposal for containing inflationary pressures and stabilizing exchange rate movements.

The monitoring of the annual monetary plan implementation revealed that overall, the CBY was successful in its mission of controlling the money supply growth over the first quarter of the current year.

Base money rose by 1.4 percent over the first quarter of CY 2021 against a target of 4.8 percent on a quarterly basis or 19.1 percent on an annual basis. Currency issued grew over the same period by 3.1 percent compared to a target of 5.7 percent on a quarterly basis or 22.7 percent on an annual basis.

The growth of base money is mainly attributable to the net effect of the increase in credit to the government in the form of direct financing of the budget deficit, together with the decrease of foreign assets associated with the disbursement of the remaining balance of the Saudi deposit. Net credit to the government increased by 2.5 percent (126.5 billion YER), while foreign assets declined by 12.4 percent (48.2 billion YER) during the first quarter of CY 2021.

M2 grew by 0.7 percent over 2021Q1, well below the quarterly target of 4.6 percent, or 18.3 percent annually considered in the annual monetary plan. Maintaining this pace will prevent any acceleration of currency emission during the current year and help stabilize exchange rates and prices.

## V. HEALTH IMPACT OF THE PANDEMIC

According to WHO, as of 16 July 2021, there have been globally 188,332,972 confirmed cases of COVID-19, including 4,063,453 deaths, reported to WHO. As of 15 July 2021, a total of 3,402,275,866 vaccine doses have been administered.

In Yemen, the pandemic led to significant loss of life while straining the health system's limited capacity. The actual figures of Covid-19 cases are likely higher than what is reported given limited monitoring and testing. From 3 January 2020 to 16 July 2021, there have been 6,964 confirmed cases of COVID-19, with 1,366 deaths reported to WHO. As of 12 July 2021, a total of 297,405 vaccine doses have been administered. Despite these efforts, Yemen is still at an increased risk of a new surge in Covid-19 cases with a weakened public health system, particularly in displaced communities that already have limited access to hygiene and sanitation services.

The vaccination campaign is critical to containing the outbreak. The first Covid-19 vaccination campaign in Yemen was launched in Aden on 20 April, and as of May, 10,482 people had successfully received their first of the two doses of the vaccine. However, ongoing conflict and doubts regarding vaccine safety have slowed down the process in many areas of the country. An effective rollout of the vaccination campaign to health workers and the most vulnerable groups is also needed.

The Humanitarian Needs Overview (HNO) analysis estimated that the ongoing conflict along with the pandemic economic fallouts could push 16.2 million Yemeni into hungry in 2021 (Integrated Food Security Phase Classification "IPC" Phase 3 or higher). Since 2015, the economy has shrunk by about half, and more than 80 percent of Yemenis now live below the poverty line. This collapse is mainly reflected in loss of income, depreciation of the Yemeni Rial (YER), loss of Government revenue, commercial import restrictions, and rising commodity prices (food, fuel, construction materials...).

## MONETARY AND FINANCIAL-SECTOR RESPONSE POLICIES

### I. MONETARY POLICY ADJUSTMENT STRATEGY

Yemen has been hit hard by the COVID-19 pandemic, which led to a deep recession in 2020 and worsened fiscal and external positions from already weak levels. Socio-economic fragilities have been severely aggravated by the pandemic and the sharp decline in oil revenues, which arrived on the heels of widespread economic and political instability. These shocks compounded difficult social and political conditions that have been prevailing for several years.

The authorities' permanent focus is on minimizing the loss of life from COVID-19 and strengthening social safety nets while ensuring macroeconomic stability. Moreover, the Central Bank of Yemen continued pursuing an accommodative monetary policy aiming at providing the needed liquidity to private and public actors inadequacy with the targets set within the annual monetary plan.

### II. EXCHANGE RATE MANAGEMENT

The downward pressure on the exchange rate, which has escalated due to the pandemic crisis, persisted during the first half of 2021, considering the lack of foreign reserves available to cover the widening balance of payments deficit. The decline in remittances, because of COVID-19 related impacts in countries providing labor opportunities, further compounded the situation. This will continue to affect the purchasing power of local Yemenis, placing further stress on consumers and businesses.

Within this context, ERLP has developed a time-framed action plan to assist the CBY in establishing a competitive and transparent FX allocation system that can promote price discovery and improve market stability, thereby alleviating the ongoing pressure on the foreign exchange rate.

This allocation framework envisages a comprehensive FX auctioning model, which would provide flexibility for the CBY to intervene as needed in a transparent and non-distortive manner to help stabilize the Yemeni Rial. This framework is consistent with best practice compliant FX management/allocation practices regionally. It defines a clear and transparent set of eligibility criteria for market participation, covering commercial banks and money exchange bureaus.

Effective exchange-rate management is particularly important in Yemen, because of the role which enhanced currency stability can play in stabilizing domestic prices. This, in turn, reflects the heavy import-dependency of the Yemeni economy, and the resulting high degree of pass-through from the exchange rate to inflation.

The exchange rate of the Yemeni Rial to the US dollar could further depreciate to YER 1,000/USD and beyond because of diminished sources and reserves of foreign currency. This would lead to accelerated increases in imported food commodity prices, manifest through increased costs of the minimum food basket and deteriorated purchasing power of the Rial.

To halt and reverse the accelerated depreciation of the Yemeni Rial, thereby easing the import constraints and related pressure on food prices and the economy in general, there is a need to urgently explore opportunities to effectively support the foreign currency reserves in the Central Bank of Yemen, which will also facilitate food imports and stabilize the economy.

Within this context, allowing for greater flexibility will enable CBY to better absorb economic shocks (for example, external demand shocks, negative terms-of-trade shocks, natural disasters...) and deal more effectively with the high current account deficits and exchange rate risk that have worsened as a result of the impact of the pandemic on the international trade and finance system.

### III. MONETARY POLICY RESPONSE MEASURES

ERLP and the CBY have been working closely to ensure that the government's primary monetary policy objectives are being fully met, considering the mounting inflationary pressures aggravated by the pandemic. These monetary policy objectives aim to contain prices and achieve macroeconomic stability, with a higher growth rate, stabilized inflation, and lower unemployment rates.

The CBY places great importance on adherence to the monetary policy framework designed by ERLP. This was demonstrated in the bank's reconfirmation of the commitment made in CY2020 to meet the ROYG's quantitative targets for broad money and base money circulation. The CBY will continue using a monetary plan designed in collaboration with ERLP in CY2021.

The updated CY2021 monetary plan projects broad and base money growth at 18.3 and 19.1 percent, respectively, while monetary emission is estimated to grow by 22.7 percent. These values are consistent with a targeted inflation rate within the range of 25-30 percent. Adherence to these quantitative targets is necessary to rationalize money-supply prerequisites, and limit high inflationary pressures stemming from monetary emission.

The CBY is also working with ERLP experts to develop a market-based toolkit that could facilitate a gradual transition towards a more diversified set of monetary control instruments, including open market operations, standing facilities, and a structured reserve requirement system.

The principal objective of monetary policy is to attain low and stable inflation. To this end, the central bank attaches great importance to sound monetary control policies. This is being achieved by constructing a solid framework for monetary targeting based on annual monetary plan quantitative indicators and moving toward the adoption of a comprehensive toolkit of indirect and market-based instruments for liquidity management.

In addition, with a view to developing a market-based approach to monetary policy, the CBY aims to adopt a conventional monetary management framework, which reflects market forces, and unified the multiple exchange rates in the foreign exchange market by floating the Rial, while building up the stock of foreign reserves. The ultimate goal of these actions is to narrow the external deficit and mitigate pressures on foreign exchange reserves, including by helping to improve the fiscal balance and reduce the need for monetary financing of the budget.

The transitions towards the initial application of indirect instruments for monetary policy implementation being planned (including through the conduct of limited open market operations to regulate liquidity), are being designed in part to help CBY to mitigate the economic impact of the coronavirus pandemic by limiting any excessive monetary expansion on inflationary pressures, while providing needed liquidity to the public and sector to respond to related expenditure pressures.

The recent initiative taken by MOF and CBY, with the assistance of ERLP experts, to issue government short term securities (Treasury bills and Sukuk) for a maximum envelope of 400 billion YER during the

second half of the current year is a big step towards effectively controlling financing of the budget, absorbing the liquidity surplus from the market, and reducing potential inflationary and depreciation pressures.

#### **IV. BANKING SECTOR POLICIES**

ERLP is working closely with the CBY to i.) assess the impact of the pandemic crisis on liquidity and solvency in the banking sector, and ii.) review the loan forbearance policies conducted by commercial banks in view of the crisis and ensure that these are being monitored by the CBY, within the framework of a wider overarching financial forbearance strategy/game-plan. ERLP is also working with the CBY to design adequate health and safety policies within the financial sector to ensure the protection of banking sector employees and prevent transmission of COVID-19.

To this end, ERLP designed and administered a survey that was addressed to selective commercial banks. The survey reviewed the preferential rates and policies applied to businesses and individuals. The survey also reviewed the health and safety policies followed by banks; and assessed the technological capacities of these banks and whether they were able to switch to electronic banking for some of their activities.

The survey demonstrated that some commercial banks had, in fact, taken the initiative to offer preferential policies to their corporate customers. For example, the Yemen-Kuwait Bank (YKB) has exempted 50 percent of loan repayments/installments across all economic sectors under the bank's crisis management plan. The survey also showed that all surveyed banks had reduced their person-to-person operations and relied increasingly on electronic banking facilities.

ERLP is working closely with the CBY to ensure that these policies are tracked and monitored closely as the CBY is expanding its capacity to enforce stronger financial reporting and oversight requirements within the banking system. It is crucially important moving forward that the CBY assesses the implications of these policies within an overarching debt forbearance framework that considers the overall financial stress imposed on the banking sector due to these policies.

At the same time, ERLP is also working closely with the CBY Bank Supervision Department (BSD) to facilitate the effective implementation of a phased regulatory and financial adjustment plan that could help commercial banks respond effectively to the liquidity and solvency challenges of the pandemic. This plan will be developed in a manner that aims to protect core macro-financial stability parameters while limiting disruptions in financial-service provision. Efforts will also be directed towards improving the quality of data collection within the banking sector. This, in turn, will be utilized to facilitate the elaboration of reliable and consistent key macro-financial indicators/balance sheets and assessing with greater precision the impact of COVID-19 on financial sector stability in Yemen.

### **FISCAL POLICY RESPONSE**

#### **I. NEAR-TERM STRATEGIES**

ERLP has been working closely with MOF to develop a clear fiscal policy response strategy in view of the pandemic crisis. In this regard, the government has created a 'Pandemic Inter-Ministerial Committee' to address the consequences of COVID-19 on public health and the economy. Within this context,

ERLP has worked closely with the MOF Budgeting Department to design a targeted pandemic response component within the annual budget.

This initiative aims to improve health care budget planning processes based on practical budget prioritization criteria while also focusing on keeping healthcare at/near the top of the MOF's overall budgeting priority list. ERLP has also helped the MOF take key planning steps needed to raise urgently needed external resources to effectively finance pressing immediate healthcare needs in response to the pandemic.

The Ministry of Health (MOH) provided medical equipment to quarantine centers in selected governorates through this joint effort. The MOH has also received technical assistance (mostly respirators and medical safety tools) from donor institutions, primarily the World Bank, in collaboration with the World Health Organization.

Table 5 presents a detailed summary of government expenditures and foreign aid allocated to the healthcare sector in response to the COVID-19 crisis. It presents a detailed breakdown of the allocation of COVID-related government expenditures and foreign aid in the healthcare sector for CY2020 and CY2021. Overall, total healthcare expenditure allocations for COVID-related policies reached YER

16.52 billion in CY2020 and increased to YER 39.8 billion in CY2021. Foreign aid in response to the crisis in CY2020 is estimated at YER 24 billion and YER 22 billion for CY2021. Overall, COVID-19-related allocations are expected to increase by almost 52 percent in CY2021.

In CY2020, MOF allocated YER 55 million to finance wages and other compensation for medical staff working at COVID-related medical sites. This was increased to YER 5.5 billion in CY2021. MOF also allocated YER 1 billion each for CY2020 and CY2021 to support spending on COVID healthcare-related goods and services. External donors provided additional funding of approximately YER 11 billion in each of CY2020 and CY2021, which were channeled to the procurement of medical supplies, including rapid Covid-19 tests.

In addition, the government secured YER 1.2 billion in CY2020 for the acquisition of non-financial assets (capital expenditures), which were mainly used to buy medical equipment for hospitals and quarantine

centers. The government has allocated the same volume of resources for the acquisition of medical equipment in CY2021. External aid for acquiring COVID-related non-financial assets reached YER 13 billion in CY2020 and YER 11 billion in CY2021.

About half (52 percent) of COVID-19-related costs are slated to be allocated for social subsidies, grants to service entities, and social benefits. MOF allocated YER 14 billion in CY2020 and allocates YER 32 billion in CY2021, respectively, for social subsidies, grants, and benefits in response to COVID-19 social stabilization needs.

**Table 5: COVID-19-Related Government Healthcare Expenditures, CY2020 and CY2021**

YEAR	CY2020		CY2021	
BUDGET CLASSIFICATION	COVID-19 RELATED COST FACTOR (IN YER MILLION)			
	General Treasury	International Assistance	General Treasury	International Assistance
<b>Section 1: Wages &amp; Compensations</b>	<b>55</b>	<b>0</b>	<b>5,500</b>	<b>0</b>
Wages of Medical Staff	35	0	3,500	0
Additional Financial Incentives for Medical Staff	20	0	2,000	0
<b>Section 2: Expenditures on Goods and Services</b>	<b>983</b>	<b>11,073</b>	<b>1,059</b>	<b>10,880</b>
Medical Supplies	943	10,350	1,000	10,000
Public Awareness Campaigns and Training Seminars	22	0	30	0
Quick COVID-19 Tests	0	63	0	80
Outsourced Medical Services	1	0	5	0
Subsidized Meals for Medical Staff & Volunteers	2	0	4	0
Transportation Expenses to Local Governorates	15	0	20	0
Logistical/Operation Medical Expenses	0	660	0	800
<b>Section 3: Social Subsidies, Grants, &amp; Benefits</b>	<b>14,212</b>	<b>0</b>	<b>32,000</b>	<b>0</b>
Tax & Customs' Exemptions	11,567	0	11,567	0
Financial Subsidies to Yemeni Airlines	720	0	720	0
Financial Subsidies to Electricity Companies	0	0	12,000	0
Financial Transfers to Local Governorates	1,755	0	7,000	0
Financial Transfers to Al-Amal Medical Center	60	0	60	0
COVID-19 related social Benefits	110	0	653	0
<b>Section 4: Non-Financial Asset Acquisition</b>	<b>1,273</b>	<b>12,990</b>	<b>1,250</b>	<b>11,050</b>
Medical Equipment for Hospitals & Schools	750	12,990	750	11,050
Medical Equipment for Isolation & Quarantine Centers	500	0	500	0
Temperature Screening Devices	23	0	0	0
<b>Total Expenditure</b>	<b>16,522</b>	<b>24,063</b>	<b>39,809</b>	<b>21,930</b>
<b>Grand Total in YER million</b>	<b>40,585</b>		<b>61,739</b>	
<b>Grand Total in USD million</b>	<b>47</b>		<b>71</b>	



Table 6 presents total government expenditures on healthcare as a percentage of GDP for CY2020 and CY2021.

In CY2020, the government allocated YER 16.5 billion (the equivalent of US\$1.9 million, which represents just 0.11 percent of GDP) for healthcare spending. External donors provided additional foreign assistance resources of YER 24 billion. Thus, total healthcare spending (out of the budget and foreign assistance combined) reached YER 41 billion (USD 47 million) for CY2020, representing 0.27 percent of GDP.

In CY2021, MOF raised its budget allocations for healthcare spending to YER 40 billion (equivalent to USD 47 million, representing 0.32% of GDP). Additional donor assistance received in response to the pandemic in CY2021 has so far reached YER 22 billion (the equivalent of USD 22 million, which represents 0.16% of GDP). Thus, total healthcare expenditures have reached YER 62 billion so far in CY2021, the equivalent of USD 72 million, representing 0.40 percent of GDP.

**Table 6: Total Public expenditures in Response to COVID-19**

	CY2020			CY2021		
	In Billion rials	In USD million	% of GDP	In Billion rials	In USD million	% of GDP
Financed by the Treasury	17	19	0.1	40	47	0.32
Financed by Donors	24	28	0.16	22	25	0.16
Total Expenditures	41	47	0.3	62	72	0.4

During the first half of CY 2021, MoF has moved forward with the requested financial resource allocations to cover the COVID-19-related expenditures as reflected in Tables 5 and 6. At this point, it is, in fact, expected that the actual treasury financed expenditure on COVID-19 will exceed the originally planned allocation by almost 15 percent. This reflects a further increase in expenditures on COVID-related goods and services and social subsidies mandated by the COVID-19 ministerial committee. Moreover, it is expected that COVID-19 expenditures from donor institutions that are reflected in the budget could increase to approx. USD 54 billion. In addition, it should be noted that the ERLP team is supporting the MoF and MoH in prioritizing COVID-19 response goals and mitigation activities in the recently initiated medium-term health sector costing and activity planning exercises, now being conducted for the CY 2022-23 period.

## DEBT FORBEARANCE

### I. INTERNATIONAL MONETARY FUND (IMF)

Yemen has recently benefited from the first and second tranches of the COVID-19-related application of the IMF's Catastrophe Containment and Relief Trust (CCRT). The CCRT provided IMF debt service relief from April 2020 to October 2020 and from October 2020 to April 2021, at an amount equivalent to SDR 14.44 million (Special Drawing Rights) and SDR 10.96 million, respectively.

The CCRT may also enable Yemen to benefit from service debt relief for the next two years if there is fresh replenishment of the trust by international donors. This could further boost the initial debt relief envelope approved for Yemen from SDR 25.4 million to SDR 53.4 million.

### **THE PARIS CLUB**

The Paris Club recognized that Yemen was eligible for benefits from the Debt Service Suspension Initiative (DSSI), which was endorsed by the G20. Thus, the Paris Club creditor countries agreed to provide the Yemeni government with a time-bound suspension of debt service from May 1 to December 31, 2020. Yemen is committed to devoting the resources freed up by this initiative to increase expenditures on COVID-19 mitigation in the health, economic, and social spheres. Yemen is also committed to seeking equal debt service treatment from all other bilateral creditors in line with the agreed-upon term sheet.

### **NEXT STEPS**

The pandemic challenge has further aggravated Yemen's economic and social stabilization challenges through its impacts on public spending, public revenues, and inflation/exchange rate pressures. ERLP has worked closely with the CBY and MOF to develop a detailed list of programmatic monetary and fiscal response policies. These have prominently included (1) the development of a monetary plan with well-defined targets aimed at containing inflation below 20 percent; (2) the initiation of a comprehensive framework for the CBY to regulate market interventions and pursue FX placement/allocation activities using a competitive and transparent auctioning system, to control foreign exchange fluctuations and prevent further devaluation of the Yemeni rial; and (3) Consolidating data reporting practices within the financial sector.

It has also included a fiscal containment plan to design a meaningful pandemic-response component within the annual budget. ERLP is also helping to improve sectoral budget planning processes at MOF, based on optimal budget prioritization criteria, with an initial focus on the health care sector. This, in turn, includes a focus on more improving the magnitude and efficient targeting of public resources allocated to healthcare services, including for COVID treatment and prevention activities. These factors are also being incorporated into the initial medium-term budget planning exercise being carried out with ERLP support in the health sector as well. Looking ahead, the ERLP team will continue to collaborate closely with CBY and fiscal authorities to monitor and adjust macro-financial and fiscal response strategy as needed in a manner that helps insulate the macro-financial system from the destabilizing effects of the pandemic crisis while helping mitigate its adverse socio-economic impacts on the Yemeni people.

## **1.1.5 ANTI-MONEY LAUNDERING/COUNTER FINANCING OF TERRORISM (AML/CFT)**

### **BACKGROUND**

In the years immediately following its MENAFATF evaluation in 2008, Yemen took steps to improve its AML/CFT legal and regulatory regime. However, the events that took place in Sanaa since 2012 led to a complete halt to AML/CFT work, which negatively affected Yemen's ability to keep pace with developments in this field and to advance the implementation of international standards. It also negatively affected AML/CFT capacity building due to the suspension of training programs. In its 2018 CBY Diagnostic, the IMF noted serious shortcomings with Yemen's AML/CFT law and regulations and their implementation at the institutional-operational level in both Sanaa and the newly established bank

in Aden. Moreover, the IMF noted that there were no effective policies and mechanisms to enable effective cooperation among AML/CFT policymakers, the CBY, the FIU, and law enforcement.

AML/CFT operations began completely from scratch in Aden in 2019; with the establishment of the Financial Intelligence Unit (FIU). The predecessor to ERLP, USAID’s YESS project, initiated work in 2019 with the new Aden-based office of the CBY to address the deficiencies in the AML/CFT regime. A comprehensive gap analysis was conducted that identified issues with the legal/regulatory regime and the technical assistance needed to assist the CBY and the FIU in improving AML/CFT monitoring and enforcement, as well as instituting compliance by banks and other financial institutions (FIs).

**QUARTERLY WORK ACTIVITIES/DELIVERABLES**

To correct the critical AML/CFT policy/regulatory, capacity, and institutional deficiencies, ERLP’s advisory experts have been working intensively with the CBY Bank Supervision Department (BSD), and with the FIU, on driving progress on critical reforms to Yemen’s AML/CFT regulatory/operational framework and institutional oversight regime.

During the quarter, ERLP’s AML/CFT efforts included: (i) developing a white paper – as requested by the CBY – that explains and promotes the adoption of the amendments needed to bring the AML/CFT regulations into compliance with FATF standards; (ii) assisting the BSD develop an off-site inspection manual; (iii) assisting the FIU develop procedures for analyzing and responding to requests for assistance from other Yemeni authorities; (iv) supporting the FIU with the development of a guide to improve the analysis of Suspicious Transaction Reports (STRs) and the conduct of on-site inspection missions; and (v) assisting the BSD and FIU develop an MOU on AML/CFT information exchange.

The following table summarizes ERLP’s activities and achievements during the quarter.

**Table 7: Q3 AML/CFT Activities and Deliverables**

ACTIVITIES	DELIVERABLES
Assist the Head of the FIU to finalize and advocate adoption of the AML/CFT regulatory amendments needed to address remaining deficiencies.	White paper on the amendments needed to bring the AML/CFT regulations into compliance with FATF standards developed and submitted to CBY.
Assist BSD develop Off-site AML/CTF Inspection Manual	Off-site AML/CFT inspection manual developed and submitted to the BSD
Support the FIU with establishing procedures for assessing requests for assistance from other Yemeni authorities	Procedures for analyzing requests for assistance from other Yemeni authorities drafted and submitted to the Head of FIU
Assist the FIU and BSD in implementing the STR and on-site manuals adopted in Q2	Guide to improve the efficiency of STR analysis and on-site inspection missions developed and submitted to the Head of FIU
Increase cooperation between BSD and FIU	MOU on cooperation developed and executed by heads of both the BSD and FIU

## **I. WHITE PAPER ON THE OUTSTANDING AMENDMENTS NEEDED TO BRING THE AML/CFT REGULATIONS INTO COMPLIANCE WITH FATF STANDARDS DEVELOPED AND SUBMITTED TO CBY.**

In the previous quarter, ERLP's AML/CFT advisory team and the CBY agreed on the text of the amendments needed to bring Yemen's AML/CFT regulations into greater conformity with core FATF standards. The CBY then asked the AML/CFT advisor to prepare a white paper on the amendments, which the CBY committed to submit to Yemen's National Committee on AML/CFT for adoption at its next meeting (expected during the next quarter).

During Q3, the AML/CFY advisor developed the requested white paper and reviewed it with the CBY. The paper explains each of the proposed amendments – which, among other things, will enhance AML/CFT risk management requirements and increase the independence of the FIU as required by the EGMONT Group – and how the amendments have been formulated in a manner that is consistent with Yemen's existing AML/CFT Law (which itself cannot yet be amended due to the absence of a cooperating parliament). The proposed regulatory amendments are expected to be adopted during the next quarter.

*(See Annex 9– AML - White paper on the outstanding amendments needed to bring the AML/CFT Regulations into compliance with FATF standards)*

## **II. OFF-SITE AML/CFT INSPECTION MANUAL DEVELOPED WITH THE BSD**

As a follow-on to its prior development of an on-site inspection guide for the BSD (which covers the planning, organization, and conduct of on-site inspections to verify the compliance of banks and FIs with AML/CFT requirements), during the quarter, the team developed with BSD off-site guide specifying the measures needed the BSD will take to prepare its personnel for field inspection missions; including the methodology for assessing the documents submitted by the banks and other FIs that will be the subject of a filed inspection. The off-site manual is currently under final review by the BSD, and is expected to be adopted during the next quarter. *(See Annex 10: AML/CFT Off-Site Supervision Manual)*

## **III. PROCEDURES FOR ANALYZING REQUESTS FOR ASSISTANCE FROM OTHER YEMENI AUTHORITIES DRAFTED AND SUBMITTED TO THE HEAD OF FIU**

In addition to receiving and analyzing STRs, the FIU receives requests for assistance (RFAs) from local and international bodies and inquiry letters from the judiciary. In an RFA or judicial inquiry letter, the requesting party asks the FIU to provide it with information about a concerned bank, FI, and/or its clients. During the quarter, the team worked with the FIU to develop the procedures that will govern the analysis of and the response approach for each RFA and judicial inquiry letter. It is expected that the FIU will adopt the procedures in the next quarter.

*(See Annex 11– AML -Procedures for Analyzing Requests for Assistance from Other Yemeni Authorities)*

## **IV. MEASURES NEEDED TO IMPROVE THE EFFICIENCY OF STR ANALYSIS AND ON-SITE INSPECTION MISSIONS DEVELOPED AND SUBMITTED TO THE HEAD OF FIU.**

The analysis of an STR requires multiple skills, especially in terms of writing the final report based on the analysis. Following the analysis of an STR, the FIU must then decide the next practical steps that must be taken. These may, for instance, include notifying the Public Prosecutor if there are reasons to suspect serious violations of AML/CFT legal/regulatory provisions. In cooperation with the FIU, ERLP has in this

regard developed a guide to improve the efficiency of STR analysis and the conduct of any consequent on-site field inspection. The guide was subsequently approved by the Head of the FIU.

#### **V. BSD AND FIU SIGN A MEMORANDUM OF UNDERSTANDING FOR AML/CFT INFORMATION EXCHANGE**

During the quarter, the team assisted the FIU and the BSD with developing an MOU on information exchange. The MOU was submitted to the Heads of the FIU and the BSD, both of whom then reviewed, approved, and officially executed the MOU. The MOU establishes mechanisms to facilitate the exchange of financial intelligence and other information related to money laundering, terrorism financing, and related crimes. The MOU also regulates the relationship between the BSD and the FIU; most particularly with respect to the scope of the work of each in connection with the control, supervision, and inspection of banks and FIs, in order to determine the level of their compliance with the AML/CFT law and regulations. (See Annex 12– MOU on the Cooperation and Exchange of Financial Intelligence)

#### **NEXT STEPS**

During the next quarter, the AML/CFT team will work with the FIU and the CBY to promote the full adoption of the Proposed AML/CFT regulatory amendments. The team will also continue its AML/CFT training program for BSD and FIU personnel, including advanced training for employees who have completed the initial training. The team will also assist the FIU and BSD with the implementation of the MOU; and will, in addition, support the initial implementation of revised AML reporting/compliance procedures at an initial set of targeted commercial banking institutions. In turn, compliance with these provisions could prove critically important in facilitating the robust integration of Yemeni commercial banking institutions into international financial markets moving forward.

### **I.1.6 BANKING SUPERVISION AND RISK MANAGEMENT REFORM**

#### **BACKGROUND**

During the first half of Year 1, ERLP focused on improving the safety and soundness of the financial regulatory framework and monitoring/compliance system. The work included a targeted focus on improving the governance framework for IT risk management in the banking and finance sphere and supporting a broader effort to enhance the CBY's overall capacity to measure and control risks across major functional areas of CBY activity.

ERLP experts have worked in-depth on targeted regulatory and operational advancements designed to enhance the safety and soundness of the financial regulatory framework, as well as the monitoring and compliance system. In this regard, the project has completed a comprehensive reorganization of the CBY Banking Supervision Department to include a new organizational structure, an upgraded staffing, and training program, and enhanced capability to perform bank inspections compliant with CAMELS methodology.

In risk management, ERLP provided technical assistance to support and implement targeted governance action plan recommendations. The *Action Plan for The Establishment of a CBY-Wide Risk Management Function* (developed by ERLP and approved during Q1) advocated establishing an internal control and risk management regulatory framework and oversight regime within the BSD, and at the enterprise level.

USAID-supported assistance has enhanced the governance framework for IT risk management in the banking and finance sphere as well, and initiated the CBY’s overall capacity to measure and control risks across major functional areas of activity. This has helped effectively address the core regulatory and institutional constraints limiting improvements in the financial and management.

**QUARTERLY WORK ACTIVITIES/DELIVERABLES**

ERLP activities in bank supervision and risk management during the past have included (i) the approval of the final version of the new organizational structure, (ii) the utilization by the CBY officers of both off-site supervision and on-site inspection manuals, and (iii) the CBY On-Site Inspection Division initiated an inspection this quarter using the procedures outlined in the manual provided by ERLP.

During the quarter, ERLP worked with the newly organized off-site surveillance team to further upgrade and expand the CAMEL financial performance ratios being applied. This will facilitate an effectively detailed analysis of bank data and enable the division to establish compliance with specific regulatory requirements.

The supervisory matrix has been populated with a set of financial data from one additional bank during this past quarter. The results are being analyzed to test the matrix and assess the validity of the thresholds, and will be provided to the on-site inspection team as part of their inspection planning process. In addition, several technical workshops were held this quarter, addressing core components of risk-based supervision.

The following sections describe in greater detail ERLP activities during the reporting period (April to June 2021).

ACTIVITIES	RELATED DELIVERABLES
Support the conduct of 1 additional on-site inspections of commercial finance institutions, and provide related on-the-job training to relevant bank supervision staff	1. Additional on-site inspection of 1 commercial finance institution effectively initiated.
Further develop/finalize a detailed action plan for the establishment of a sound regulatory oversight system and sub-unit for Exchange House/Hawala institutions	2. Application of updated off-site financial analysis guidelines across all licensed banking institutions.
A detailed action plan for the establishment of a sound regulatory oversight system and sub-unit for Exchange House/Hawala institutions drafted/circulated	3. A detailed action plan for the establishment of a sound regulatory oversight system and sub-unit for Exchange House/Hawala institutions drafted/circulated
Provide further on-the-job training on off-site analysis procedures/techniques to be followed by off-site financial analysis exercises to relevant supervision department staff	4. Progress towards the effective introduction of an improved off-site supervision regulatory/procedural framework
Further refine as needed bank supervision guidelines and manuals to improve the ability of staff to effectively supervise banking institutions	5. Additional targeted training provided (minimum 3 sessions)

## **I. ADDITIONAL ON-SITE INSPECTION OF TWO COMMERCIAL FINANCE INSTITUTIONS EFFECTIVELY INITIATED**

During the reporting period, the on-site inspection of two commercial banks was initiated with the support provided by ERLP advisors. Project representatives attended in this regard the inaugural meeting for the inspection of CAC Bank, which included a presentation from the bank on their overall operation.

The inspectors follow the CAMELS approach outlined in the On-Site Inspection Manual, developed by ERLP, and officially adopted in Q2. Based on the manual, a scoping plan was created, and a list of actions was prepared and allocated to different inspectors. The intent is to thoroughly review the CAC Bank operations through the second half of August 2021. The BSD on-site inspection team will develop weekly progress reports, with an exit meeting with management anticipated in mid-August, with the ERLP participation.

The on-site inspection undertaken at CAC Bank is a full-scope review, while the second inspection at the National Bank of Yemen focuses more specifically on operational management aspects. The BSD will use these inspections as part of a pilot to assess the functionality of the manual and the approach followed by the inspection team. Lessons learned from the work done can be used to further adjust the manual, if/as necessary. Based on their enhanced supervisory capacity, ERLP anticipates that the CBY will be able to perform (with ERLP support) at least one inspection per month, allowing a review of all banks by Fall 2022.

## **II. UPDATED OFF-SITE FINANCIAL ANALYSIS GUIDELINES APPLIED ACROSS ALL LICENSED BANKING INSTITUTIONS**

During the quarter, ERLP continued to provide targeted technical support to CBY's off-site supervision team in analyzing the financial data of Arab Bank against the newly established CAMELS standards. The financial data were entered into a supervisory risk matrix that will provide an analysis of the bank's compliance with prescribed prudential standards in support of establishing a sound risk rating. Accordingly, as referenced above, the CAMELS system has been further upgraded with the addition of several specific prudential standards geared to review key targeted elements of a bank's financial position. A set of thresholds was further established against each prudential standard, providing the supervisor with an effective optic for purposes of comparing current results versus a targeted landmark.

The result of this analysis will establish the level of risk each prudential standard has achieved and the eventual overall net risk and risk ranking of each financial institution. This approach will apply to all banks, and will be subjected to periodic updates as circumstances evolve. The new prudential standards that were added to the CAMELS listing are:

- Reserves/Assets,
- Operational liquidity,
- Non-performing loans/Gross loans,
- Provision for doubtful loans/Gross loans,
- Investments/Assets.

The standards also cover Non-financial Investments/Assets, Non-performing assets/Assets, Fixed assets/Assets, Deposits/Assets, Undivided Earnings/Assets.

The organizational restructuring approved by the CBY in June 2021 is bringing together all the currently dispersed off-site supervision personnel together under one Division. Overall, these improvements should lead to a much more efficient utilization of supervisory oversight resources.

### III. A DETAILED ACTION PLAN FOR THE ESTABLISHMENT OF A SOUND REGULATORY OVERSIGHT SYSTEM AND SUB-UNIT FOR EXCHANGE HOUSE/HAWALA INSTITUTIONS DRAFTED/CIRCULATED.

During Q3, ERLP advisors collaborated with the BSD to evaluate the money exchange house/Hawala regulatory environment against better practice standards. Throughout the quarter, workshops were held with key personnel to discuss their current oversight approach, and assess how best to manage the oversight of this sector. Based on the discussion sessions held with the counterparts, the new organizational structure was further adjusted to introduce on-site inspection divisions dedicated to the Hawala, which will focus exclusively on the oversight of this sector.

This should further improve the efficiency of the inspection process, and mobilize a team of dedicated experts with the required knowledge to perform the specialized tasks associated with the inspection of money changers. There will also be a link with other divisions that will provide additional support, enhancing the overall analytical impact of each intervention. This new organizational arrangement will also facilitate more efficient off-site financial reviews of Hawalas, which will help provide up-to-date data to the inspection team. A new sub-division will also assume the responsibility of managing the licensing of exchange houses. A key goal of the new organizational structure is to upgrade and integrate the current on-site inspection approach within the context of a comprehensive risk-based supervision methodology.

In this regard, the Board of Directors, the Vice Governor of the Central Bank, and the Director of the Supervision Sector approved the establishment of a dedicated money exchangers on-site inspection division within the BSD structure this quarter. ERLP immediately initiated the development of an action plan with the nominated director of the Money Exchange House Division.

It should be noted that the exchange-house sector is very large; over 70 companies are licensed by the Central Bank. The five largest money exchange houses could be larger than banks, while approximately 200 money exchange companies and individual establishments appear to operate without licenses. The sector requires an expanded robust oversight regime, thus the creation of its own division. A large number of on-site and off-site supervision staff will be necessary to provide proper oversight of this sector and to follow up on licensing activities.

To establish a sound regulatory oversight structure and sub-unit for Exchange House/Hawala institutions in a systematic manner, ERLP is working closely with the BSD counterparts and rolling out a plan which entails:

1. Staff recruitment and qualification
2. Providing qualitative training for new hires to start their work and integrate quickly
3. Development of required policies and procedures
4. Define workflow



## 5. Develop the necessary specialized manuals

Detailed work on the Action Plan was undertaken during the latter stages of Q3, following a post-Ramadan COVID 'lockdown' period during which the staff of the BSD period was available for consultation on only a limited basis. Progress was made on developing the organizational structure, defining the staffing requirements, and establishing supervisory responsibilities during the deployment of the Senior Banking Supervision Advisor to Aden in June 2021. The Action Plan will be finalized in Q4 and will include sub-activities and a detailed timeline for implementation. ERLP plans to finalize discussions with the counterparts and present the detailed plan during the fourth quarter together with the official establishment of the division.

The oversight activities of the Hawala will be performed under a separate division duly established to deal exclusively for the delivery of the on-site inspection of money exchange institutions. The off-site component, including the review of financial data, will be performed by the BSD off-site supervision division, which will relay their findings to the money exchangers' on-site inspection division for execution. The action plan will serve as a roadmap for building the new division, which will be capable of providing oversight to the exchange-house sector within the context of the application of required prudential tracking/analysis tools.

### **IV. PROGRESS TOWARDS THE EFFECTIVE INTRODUCTION OF AN IMPROVED OFF-SITE SUPERVISION REGULATORY/PROCEDURAL FRAMEWORK ACHIEVED**

During Q3, ERLP introduced a substantially improved Supervisory Framework to support CBY supervision and regulatory procedures, which will guide the BSD's oversight of financial institutions. This has been achieved by further refinement of the CAMELS approach through the full incorporation of a risk-based rating/ranking focus. This, in turn, can be used to prioritize the annual on-site inspection plan.

This quarter, the newly approved organizational structure mandated all off-site analysts embedded within various inspection departments to be brought in under one newly created off-site supervision division responsible for analyzing all financial data from financial institutions operating in Yemen. ERLP is supporting the new division in reviewing and analyzing the information received from commercial finance institutions. The findings from these analyses will then be submitted to the appropriate on-site inspection division for further action. The overall BSD reorganization plan has been approved in principle by CBY management and Board Members and is expected to be ratified during Q4 through a formal approval action to be issued by the Board.

### **V. ADDITIONAL TARGETED TRAINING PROVIDED (MINIMUM 3 SESSIONS)**

ERLP senior advisors provided a series of focused online and on-site targeted training sessions and workshop events during the quarter. These interventions supported:

- The introduction of the new organizational structure
- The development of additional CAMELS prudential standards
- The evaluation of financial statements
- The establishment of ratio thresholds, discussions on risk rating and ranking, and core elements of risk-based banking supervision

The training is expected to drive key follow-up actions by relevant CBY officials, including a review of the data used to populate the supervisory matrix and weekly reports on on-site inspections.

### **Prudential Standards**

Following the introduction of the CAMELS analysis system, the off-site supervision group attended a workshop designed to develop additional prudential standards ratios that would complement the CAMELS group of ratios. This exercise helped further refine ratio concepts in a manner that was specific to the Yemeni environment. Approximately ten new standards were developed and included in the Supervisory Matrix. The group also established the individual ratio threshold associated with each new prudential standard, readily applicable within the local institutional context. The workshop concluded with a major bank's eight-quarter financial results being input into the matrix as a pilot exercise to test the application.

### **Supervisory Risk Matrix**

The supervision department was introduced to a matrix used to analyze a major financial institution's performance during a series of workshops on establishing the prudential standards ratio and adequately assessing risk levels (based on a clear set of criteria and established ratio thresholds). This exercise included reviewing financial statements and income and expense statements and assessing how the collection of accurate and validated data can be effectively used to establish the valuation of each prudential standard -- and how important this is in achieving an appropriate risk rating.

### **Inherent Risk**

As the supervision department moves towards effectively calibrated risk-based banking supervision approaches, inspectors have been introduced to the concept of inherent risk. These concepts were featured during a workshop that entailed a detailed review of the types of risk involved with major components of risk-based supervision. The overview included credit, market, liquidity, operational, regulatory compliance, and strategic risk reference points. The project also focused on reputational risk as a critical additional component.

### **NEXT STEPS**

Over the coming months, ERLP will provide the BSD with further instruction on the content of risk-based supervision. The program will include the following core elements: Quality of Risk Management assessment, Capital, Earning and Liquidity review, and establishing a composite risk rating and ranking for each financial institution. It is also expected that ongoing refinement of prudential standards – along with their associated thresholds- will be finalized by end-year 2021, reflecting the findings of the current and upcoming set of bank inspection activities.

Looking ahead, ERLP will focus next quarter on a comprehensive on-site inspection of 1-2 additional banks (which comprehensively considers prior off-site inspection findings). This process will generate valuable lessons learned on identifying, analyzing, reporting findings, and following through on bank remedial actions. It is further anticipated for Q4 that the money exchange house on-site inspection group will also start a series of pilot inspections. This will provide an opportunity for the ERLP team to review their intended oversight approach and provide related recommendations on the system-wide implementation of a sound hawala supervisory oversight process as well.

## I.2 IMPROVED FISCAL POLICY DEVELOPMENT AND IMPLEMENTATION

The ERLP fiscal policy reform strategy focuses on five core areas:

1. Revenue Policy and Administration
2. Tax Administration
3. Debt Planning and Management
4. Budgetary Planning
5. Budget Implementation

In the *Revenue Policy and Administration* area, the project strengthens revenue estimation capacity and develops strategic reform options, incorporating best practice experience in post-conflict settings. This includes a focused analytical review and drafting effort with MOF on core elements of a sound revenue policy framework. A critical focus of the reform effort includes making the transition to a fully-fledged VAT system, as well as further improvement in the revenue regime for the oil and fisheries sectors.

Following an earlier comprehensive Performance Assessment Report, ERLP *Tax Administration* advisors developed a detailed set of recommendations with targeted regulatory reform measures to improve the basic functional efficiency and transparency features of the tax administration system in Yemen. These recommendations are primarily focused on the re-design of the Tax Administration Authority organizational structure along functional lines, based on a careful review of the existing organizational structure of the Tax Authority and a detailed assessment of best practice examples from the MENA region.

ERLP developed a policy & procedural framework for domestic and external *Debt Planning and Management* in Yemen. This will enable the MOF to forecast improved estimates for debt servicing requirements for the 2021 budget. The project is helping reshape the institutional framework for debt management in Yemen to promote better coordination between the MOF, CBY, and MOPIC. The project has laid the groundwork, procedurally, technologically, and through human capacity building for the reinstallation of the DMFAS.

*Budgetary Planning* is focused on systematic budgetary reforms designed to strengthen planning processes and outcomes. Priority focus areas include developing a sound budgetary policy/procedural framework, integrating GFIS-compliant budget coding requirements, and developing a robust expenditure prioritization strategy and procedural framework. ERLP also provides targeted capacity-building assistance to MoF staff to promote reforms in critical budgetary allocation areas and develop an initial integrated medium-term budgetary framework (with integrated recurrent and capital budgets) for key sectoral areas as healthcare and education.

In the *Budget Implementation* area, ERLP is facilitating the rationalization and transfer of crucial budget execution and treasury functions from the CBY to the MOF. The project is developing an integrated framework for adopting a Single Treasury Account System and implementing budget execution reform by consolidating commitment control functions within the budget execution cycle, launching new cash-flow forecasting procedures, and initiating effective operations of the Joint Committee for the Management of the Treasury.

## **I.2.1 REVENUE POLICY AND ADMINISTRATION**

### **BACKGROUND**

Fiscal policy and revenue administration reforms are important prerequisites of post-conflict recovery. In Yemen, tax collection has witnessed some improvement over the first and the second quarter of 2021, thanks mainly to improved revenue administration capacity, making it possible to resume paying civil servant-wages and pensions, thus increasing household purchasing power and promoting overall economic growth.

Building on what has been achieved over the first and the second quarter in the area of revenue estimation and tax policy analysis, ERLP experts completed a further ‘deep-dive’ diagnostic of the tax policy framework in Yemen during Q-3. The team focused on completing the first phase of the initial plan to transition from the existing GST system to a full-fledged VAT structure, by discussing and agreeing to the key policy parameters with the authorities. These will form the basis for the VAT legislation that should take place in Phase 2. In addition, the team also conducted a further in-depth analysis of the current revenue regimes in the oil sector and the fisheries sector, specific recommendations on regulatory reforms needed in the natural resource sector; along with the main considerations for regulatory reform and the policy options that were the most viable and practical to implement.

Furthermore, the team responded to a request from the MOF to advise them on measures to improve near-term revenue collection in the interim. In this regard, a targeted analytical note was prepared, which included measures to collect tax on the use of telecommunication services, including internet and mobile phones. The team recommended that, in the absence of tax compliance from Sana’a-based telecom companies, GOY should devise/collect a sales tax or excise from local internet providers and mobile phone providers in the Government controlled areas for the use of the telecom infrastructure provided by the GOY.

The ERLP team held several rounds of remote consultation meetings with senior staff from the Ministry of Finance and the Tax Administration Authority.

### **QUARTERLY WORK ACTIVITIES/DELIVERABLES**

ERLP completed three detailed analysis/reports and a policy note in Q3, including i) A Report on Agreed VAT Policy Parameters Discussed with MOF and Tax Authority, Forming the Basis for The Draft VAT Legislation; and (ii) Report on Regulatory Reforms Designed to Improve the Natural Resource Revenue Regime, from a Revenue Mobilization and Fiscal Transparency Perspective. In addition, a concise policy note was developed for the MOF: Brief on Approaches to Improve Tax Collection.

Below we highlight the main findings of the analytical activities referenced above.

**Table 8: Q3 Revenue and Policy Administration Activities and Deliverables**

ACTIVITIES	DELIVERABLES
Operate, maintain, and develop a more detailed report of revenue forecasts, both internal and for publication, and more sophisticated modeling capability in-house of revenue models.	A more detailed set of reports on revenue forecasts and micro-simulation-based revenue estimates for major oil and non-oil indirect revenue sources, both internal and for publication, reflecting a more sophisticated modeling capability on in-house of revenue models.

**I. A MORE DETAILED SET OF REPORTS ON REVENUE FORECASTS AND MICRO-SIMULATION-BASED REVENUE ESTIMATES FOR MAJOR OIL AND NON-OIL INDIRECT REVENUE SOURCES**

**Regulatory Reforms Designed to Improve the Natural Resource Revenue Regime, from a Revenue Mobilization and Fiscal Transparency Perspective**

In Q3, the ERLP Fiscal Team updated its previous strategic review of revenue flows from natural resources in the Republic of Yemen, including tax and non-tax revenues from the oil sector and the fisheries sector. Major recommendations included the following:

- In the oil revenue technical training in the area of transfer pricing rules is needed to improve enforcement capacity under income-based taxes. Training is envisaged to include exposure to innovations related to the adoption of “administrative pricing” or “norm pricing” for expenses, such as the system pioneered by Norway in the administration of its North Sea oilfields.
- In the fishery sector, capturing of resource rents through withholding of portion of the auction price for fish sales at the local level; by the auctioneer to whom the fishermen bring their catches at various landing sites. This, in turn, would avoid the need to enforce collection directly from fishermen. The auctioneers can, in this sense, be required to be the withholding agent for the state. Well-targeted tax withholding strategies have long proven an effective method for improving compliance.
- A related actionable recommendation is to improve enforcement of the tax on the production of large fishing vessels through targeted administrative controls. In this regard, there are just a few manufacturers of fishing vessels in Yemen. ERLP has advocated for development of an agreement with boat manufacturers in order to achieve greater compliance, potentially including a rate reduction for compliant manufacturers and proactive prosecution of non-compliant ones.
- ERLP has also recommended that MFW establish a mechanism for charging fishing access fees and fishing rights fees for foreign vessels, conducting fishing activities in the Yemeni waters. These fees should be based on the expected catch per day, with a minimum per day fee per vessel, to safeguard revenue and prevent understatement by the fishing companies (a longer-term measure).

- Finally, ERLP has recommended that the current imposition of export taxes should only be used as a short-run policy measure, with specification of an explicit timetable for their removal. Currently, in the absence of any other stable source of revenue, the export tax and export license fee are the only revenue received from this sector. Export tax should, at best, be treated as temporary source of revenue and should be phased **out as the other recommended measures become revenue-yielding**.

*(See Annex 13 – Revenue Policy and Administration - Report on Regulatory Reforms Designed to Improve the Natural Resource Revenue Regime - Revenue Mobilization and Fiscal Transparency)*

### **Report on Agreed VAT Policy Parameters Discussed with MOF and Tax Authority, Forming the Basis for The Draft VAT Legislation**

ERLP proposed an 18–24-month time-framed plan for the transition towards a full-fledged VAT system in Q2. This roadmap has been discussed jointly with senior officials of the MOF Revenue Department and the Tax Authority. The roadmap covers the draft legislation and policy framework, in addition to administrative regulations and procedures and capacity building and training sessions, and consists of eight phases to be implemented from July 2021 till January 2023.

In the main report, ERLP developed and presented the outcome of the first phase of the VAT implementation roadmap. The key first step towards the implementation of a VAT system is the detailed review, and agreement on key VAT policy parameters discussed with the Ministry of Finance and Tax Authority, which will constitute the basis for the envisaged drafting of the revised legislative framework.

Based on rounds of consultations held remotely with the authorities during the May-June 2021 period, ERLP has agreed with the Ministry of Finance and Tax Authority on the following key policy parameters: development of a sound protocol for registration protocol, determining a related registration threshold, establishing appropriate tax rates, determining a limited exemption policy and establishing a sound tax deferral arrangement for raw material and capital goods. This agreement is fundamentally based on best international practices in MENA and GCC regions. Looking forward, the

ERLP team will work with the authorities over the coming months to draft the major provisions of the new VAT law based on the agreed policy parameters, including both the substantive and procedural provisions.

*(See Annex 14 – Revenue Policy and Administration - The Basis for The Draft VAT Legislation: A Report on VAT Policy Parameters Discussed with MOF and Tax Authority)*

### **Evaluation of the current VAT system, with a time-framed game plan for the Development of a Full-fledged VAT structure**

The main objective of this analysis has been to update and present oil revenue forecasts for the 2021 budget in light of recent macroeconomic updates and develop micro-simulation-based revenue estimates for indirect taxes; with a special focus on VAT and Telecommunications. This is to reflect a more sophisticated modelling capabilities of in-house revenue models; and includes sensitivity analysis work as well.

Within the context of the ERLP proposed 18–24-month time-framed game plan for the transition towards a full-fledged VAT system, ERLP has in this regard developed a micro-model designed to

calculate the budgetary impact of implementing a full-fledged VAT system. The analysis conducted by ERLP was, in turn, based on 2020 budget sales tax data provided by the Tax Authority.

Based on these projections, and a VAT system at a low 10 percent rate – while and assuming a full deduction of input tax for domestic goods and services and an 80 percent compliance rate, would generate about a 10 billion YER increase in revenues (approx. 4% of total 2020 tax revenues). ERLP also conducted a sensitivity analysis which demonstrated that a somewhat higher rate structure (more consistent with international and regional standards) and enhanced compliance performance would further significantly enhance the revenue impact of VAT implementation over the medium term.

*(See Annex 15 – Revenue Policy and Administration – A Concise Policy Note on Approaches to Improve Tax Collection)*

## **I.2.2 TAX ADMINISTRATION**

### **BACKGROUND**

ERLP fiscal experts have built upon the Performance Assessment Report completed in Q1 and developed a detailed set of recommendations with targeted regulatory reform measures to improve the basic functional efficiency and transparency features of the tax administration system in Yemen. These recommendations are primarily focused on the re-design of the Tax Administration Authority organizational structure along functional lines, based on a careful review of the existing organizational structure of the Tax Authority and a detailed assessment of best practice examples from the MENA region.

The Performance Assessment identified existing gaps across several performance outcomes areas. One of the main concluded weaknesses relates to the inefficiency of the organizational structure of the Tax Administration Authority. This quarter the project developed a plan to improve the efficiency and transparency of core functions (registration, filing, examination/audit, collection, appeals); with an initial focus on the establishment of a large taxpayer unit.

### **QUARTERLY WORK ACTIVITIES AND DELIVERABLES**

This quarter, ERLP developed regulatory and operational guidelines for tax administration reform, which would improve the efficiency and transparency of core functions (registration, filing, examination/audit, collection, and appeals), initially through establishing a large taxpayer unit. ERLP fiscal advisors, in collaboration with senior tax officials, identified the core elements required to overcome existing deficiencies and designed a strategy promoting voluntary taxpayer compliance, and outlines procedures for identifying and handling non-compliance.

Yemeni officials noted the need to invest in significantly more resources, particularly human resources and information technology. While these investments would improve the ability to increase revenue collections, other areas can be addressed using existing resource levels. For example, staff are often assigned to the field while important functions at headquarters in Aden are at times neglected. Reallocation of resources would increase the authorities' effectiveness and efficiency.

ACTIVITIES	DELIVERABLES
Initiate elaboration of a plan to improve the efficiency and transparency of core functions (registration, filing, examination/audit, collection, appeals), with an initial focus on establishing a large taxpayer unit.	Regulatory/operational guidelines developed/proposed which would improve the efficiency and transparency of core functions (registration, filing, examination/audit, collection, appeals), initially through the establishment of a large taxpayer unit.

**I. REGULATORY/OPERATIONAL GUIDELINES DEVELOPED/PROPOSED WHICH WOULD IMPROVE THE EFFICIENCY AND TRANSPARENCY OF CORE FUNCTIONS**

*Effectiveness* in tax administration refers to an improved level of compliance among citizens. This objective can best be achieved by promoting voluntary compliance and self-assessment through taxpayer education, prompt detection of problems with tax filing and payment, improvement of audit coverage, and imposing adequate penalties. *Efficiency* refers to the administrative cost per unit of tax revenue collected. This objective can be achieved by assigning more and better-targeted resources to **the Large Taxpayers Unit**, **enhancing** the integrity of the registered taxpayer base, and using banks to accept tax payments.

Improving effectiveness and efficiency requires that the tax administration impactfully support five critical functions: (i) taxpayer registration, (ii) accounting **and** returns processing, (iii) collection enforcement, auditing, and appeals. To help it better perform these functions, ERLP designed a **reform strategy**—based on the current level of resources of the Yemeni Tax Administration—that extends through March 2022.

ERLP has recommended beginning with a pilot project for a Large Taxpayers Unit. Doing so would allow the tax administration to effectively test new procedures for taxpayer identification, registration, collection, enforcement, and audit on a subset of large taxpayers, before rolling out the program to all such taxpayers. Success would convince skeptics that reform is possible, identify practical lessons learned, and build momentum to continue.

The guidelines detailing key reform recommendations and a related detailed timetable were prepared and presented to the Tax Administration Department during this past quarter. ERLP’s senior tax admin specialists will be deployed during Q4 to Yemen to meet with senior officials and staff to develop a common vision for priorities, identify key bottlenecks, and agree on specific measures required to effectively address the major problems that have been identified. These include fault-line inefficiencies in taxpayer registration, tax returns/payments processing, stop-filer detection, arrears collection, delinquent taxpayer management, audit oversight, and organizational structure and staffing areas.

Core strategic directions which have been articulated/disseminated include the following:

**Taxpayer Registration**

1. Design a unique Taxpayer Identification Number.
2. Close inactive taxpayer accounts as needed.
3. Include information on the status of each taxpayer’s obligations in the database.
4. Routinely analyze taxpayers’ accounts to detect duplicate or irregular registrations.



5. Remove inactive and dormant accounts from taxpayer registers.
6. Monitor taxpayer obligations to enhance compliance.
7. Identify unregistered cash activities through the systematic exchange of information by government agencies using the taxpayer identification number (TIN) and cross-matching taxpayer information with third-party data.

## **Monitoring Filing Obligations**

Timely filing rates for all types of taxes in Yemen are well below international standards. Weak performance in this area is strongly affected by the low quality of the taxpayer register, which contains a large number of taxpayers who should be de-registered. The reforms required here will introduce efficient procedures for detecting and deregistering terminated taxpayers; while promptly identifying, contacting, and ensuring adequate penalties for late-filers and stop-filers.

## **Audit**

ERLP has proposed a functionally-based organizational structure that introduces a Central Audit Unit, which is completely distinct/separated from field operations. This unit would be responsible for development of audit policies, procedures, and plans; as well as the monitoring of tax administration activities carried out by the field offices. Such a structure would allow the central Tax Administration Bureau to focus on the overall management and strategy of the audit function and not become bogged down in operational activities per se, which would be handled in the field.

Instead, the authorities can best tackle taxpayer non-compliance through development of a comprehensive tax compliance plan based on risk-ranking techniques. Audit case selection procedures should be developed that draw on intelligence activities and third-party information. It has been proposed as well that a large share of resources should be dedicated to systematic audit (desk audit) of corporate and personal income tax returns based on their risk.

In addition, an audit coverage assessment will be conducted to determine the categories and concentration of audit activities to be undertaken, encompassing types and number of audits (comprehensive, issue-oriented). Audit quality is to be assessed by monitoring the proportion of audit assessments that are disputed and discharged and their collection rates.

## **Collection**

Yemen lacks efficient and transparent write-off mechanisms, exhibits weak compliance monitoring, and traditionally has not viewed collection enforcement as a strategic priority. The guidelines propose development of a procedural framework for the Tax Administration, which helps create and maintain a dossier of arrears, classified according to their collectability (with regard to their value and age profile of debt). A well-defined process will need to be established in this regard to identify and write off uncollectible arrears; in a manner which helps to efficiently focus efforts and resources on newer, more readily collectible debts.

## **Tax Dispute Resolution**

Yemen has an independent review/dispute resolution mechanism, but the number of disputes that come before seems to be quite low, possibly reflecting a lack of taxpayer confidence in the capacity of the Tax

Authority to resolve cases expeditiously and transparently. The small number of cases actually processed relates in large part to the lack of staff, and limited capacity to effectively analyze dispute resolution outcomes.

The proposed reforms in this area would mandate/facilitate closer monitoring of the tax appeals process, effective actions to better inform taxpayers of their dispute filing/resolution rights, and expanded institutional capacity to monitor the causes and outcomes of disputes.

### **Large Taxpayers Unit**

The Tax Authority has taken the first step toward establishing a Large Taxpayers Unit (LTU) by establishing regional Large Taxpayer Offices. The guidelines which have been developed aim at effectively institutionalizing these offices through adoption of a sound LTU organizational structure. ERLP is also recommending robust staffing for an LTU, in order to enable it to effectively monitor the collection of taxes from large taxpayers. While relatively few in number, these actually account for an estimated 80 percent of tax revenue from sales and corporate income taxes. The establishment and operationalization of a modern LTU could help ensure the timely collection of tax revenues from a range of taxation instruments; as well as the prompt identification of stop/non-filers and delinquent taxpayers.

It should be noted in this regard that large taxpayers typically carry out a high volume of transactions and have complex operations. They often have branches inside and outside Yemen and employ skilled accountants and lawyers that may use forms of evasion which can be difficult to detect; such as transfer pricing. Uncovering these practices and efficiently tracking/enforcing payment obligations requires special monitoring units with highly specialized staff.

Overall efficient LTU operations could significantly reduce errors in tax declarations and delays in the collection of substantial amounts of revenue for the Tax Authority. The LTU can, in turn, serve as a model for adopting and expanding modern tax administration practices to other types of taxpayers. They are introduced as pilot projects across many countries in the Middle East, including Jordan and Lebanon, has, in fact, proven highly successful as an initial impetus to procedural and technological advancements in tax administration at a national level.

Large taxpayers usually carry out a high volume of transactions and have complex operations. They often have branches inside and outside Yemen and employ skilled accountants and lawyers that may use forms of evasion that are difficult to detect, such as transfer pricing. Uncovering these practices requires special monitoring units with highly specialized staff.

*(See Annex 16 – Tax Admin - Report on Regulatory Reforms Designed to Improve the Efficiency and Transparency of the Core Functions (Registration, Filing, Audits, Collection, and Appeals))*

### **NEXT STEPS**

The early-stage implementation, on a best-efforts basis, of the strategic plan to improve the efficiency and transparency of the core functions of registration, filing, audit, collection, and appeals -- with an initial focus on the large taxpayer unit -- is anticipated to be initiated during Q4.

As noted above, the senior ERLP Tax Administration Expert will deploy to Aden during Q4 to work with counterparts toward securing final approval of the guidelines and related timeline which has been developed/ In addition implementation of a number of core administrative reform guidelines in key functional areas is expected to be initiated as well.

**I.2.3 DEBT PLANNING AND MANAGEMENT**

**BACKGROUND**

ERLP fiscal experts have built on previous analytical and data gathering work to develop a comprehensive policy & procedural framework for debt planning and management (domestic and external) in Yemen. This will enable the MOF to forecast improved estimates for debt servicing requirements for the 2021 budget. The project is helping reshape the institutional framework for debt management in Yemen to promote better coordination between the MOF, CBY, and MOPIC. The institutional groundwork has been laid for significantly enhancing the role of MOF in debt planning & management activities.

**QUARTERLY WORK ACTIVITIES AND DELIVERABLES**

In Q3, ERLP prepared procedural guidance presenting all hardware, software, and training required for the reinstallation of DMFAS. The project resumed discussions and negotiations with UNCTAD and the Commonwealth to choose between the DMFAS and CDMRS platforms, and finalize the selection process. UNCTAD proposed a revised offer of approx. USD 300,000 for the purchase of and training on DMFAS 6, after removing a few extraneous training activities from the original package. The CBY accepted this offer with the contract expected to be signed in Q4. ERLP is following up with UNCTAD regarding the next steps for DMFAS 6 acquisition and will continue to provide support during this process. ERLP also provided training to senior CBY officials on DMFAS – 6 in Cairo following a workshop on Refinitiv applications and meeting with Central Bank of Egypt counterparts.

**Table 12: Q3 Debt Planning and Management Activities and Deliverables**

ACTIVITIES	DELIVERABLES
Provision of information about requirements of centralized data reporting framework.	1. Centralized data reporting framework/processes established within MOF, which effectively collate debt disbursement and obligation information from decentralized public sector spending units.
Provision of information about requirements for DMFAS 6 installation.	2. Detailed procedural guidance developed, which supports reinstallation of DMFAS system at MOF.
Preparations for training by ERLP team to MOF and CBY on debt management and use of DMFAS.	3. Targeted training provided to MOF and CBY employees (minimum of 2-3 training sessions) on utilization of DMFAS

**I. CENTRALIZED DATA REPORTING PROCESSES DEVELOPED**

ERLP prepared centralized data-reporting processes that collate information on debt disbursement and obligations from MOPIC and the decentralized public sector spending units. The goal is to draft procedures that optimize the centralization of debt data and provide clear SOPs for post-installation

phases. The base of these processes is an accurate, updated database that requires follow-up on the data, coordination among counterparts, staff having a background and training in debt, and clear guidelines for data recording. (See Annex 17 – Debt - Centralization of Public Debt Data Reporting in Yemen)

## II. DETAILED PROCEDURAL GUIDANCE DEVELOPED SUPPORTING REINSTALLATION OF DMFAS AT CBY

ERLP has prepared a detailed procedural guidance document that describes all hardware, software, and training prerequisites required to support the reinstallation of DMFAS at CBY. It also explains the steps that follow DMFAS installation, including capacity building activities and data transfer. The goal is to prepare the CBY for the installation and what to expect after the installation. (See Annex 18 – Debt - Procedural Guidance to Support Reinstallation of DMFAS)

## III. TARGETED TRAINING PROVIDED TO MOF AND CBY EMPLOYEES

ERLP prepared training material and delivered a workshop on the Introduction to DMFAS 6 (July 7) in Cairo to CBY senior officials. The workshop covered the important technical and operational aspects of the system, explaining how it is used to manage debt and other financial instruments throughout the core phases of their life cycles: registration, mobilization of funds, and debt service operations. It also introduced the reporting and analysis features.

After participating in a comprehensive presentation of the system, the CBY officials expressed a high level of satisfaction with the features and capabilities. (See Section 1.1.2 and associated annexes for additional information about the Cairo workshops and the DMFAS training.)

## IV. LATEST PUBLIC DEBT DEVELOPMENTS

### Domestic Debt

The CBY handles Yemen’s public debt management; for domestic debt, it issues certificates of deposit and agency deposit certificates with maturities of three months (Islamic Sukuk) and follows up on related interest payments. In 2020, the roll-over issuance of certificates of deposit and agency deposit certificates continued from previous years, at a total value of YER 100 billion per quarter. The outstanding short-term domestic debt balance was YER 100 billion by the end of 2020 and remained at this level through Q1 and Q2 of 2021 due to the roll-over of those debt obligations.

**Table 13: CBY Issuances of Certificates of Deposit and Agency Deposits, 2021 (Billion YER)**

INSTRUMENT	Q1	Q2
Certificates of Deposits	17.3	17.3
Agency Deposit Certificates	82.7	82.7
Total	100	100

## External Debt

Work on updating the database of external loans is continuing. In this regard, not all creditors who received letters instructing them to send their loan agreements to MOPIC have yet responded; consequently, the outstanding balances of external debt are still being collated.

The CBY executes the payment of installments and interest due on external loans. Currently, IDA loans are the only loans being serviced in Yemen.

**Table 14: Principal and Interest Payments on Loans to International Development Association (IDA), 2021 (Million US\$)**

Component	Q1	Q2	Q3	Q4	Total
Principal	15.27	24.36	15.27	24.86	79.76
Interest	1.66	3.84	1.71	3.75	10.96
Total	16.93	28.2	16.98	28.61	90.72

**Table 15: Total Debt Service, 2019–21 Budget (Million YER)**

	2019	2020	2021
<b>Domestic Loans</b>			
Amortization of deposit certificates and	100,000	100,000	100,000
Interest paid on deposit certificates and	24,086.6	24,327.5	24,570.8
Interests paid on overdraft of	265,544.8	268,200.2	270,882.2
<b>External Loans</b>			
Principal	31,047.2	31,330.4	31,643.6
Interest	4,886.3	4,934.1	4,983.5
<b>Total Installments</b>	<b>131,047.2</b>	<b>131,330.4</b>	<b>131,643.6</b>
<b>Total Interest</b>	<b>294,516.7</b>	<b>297,461.8</b>	<b>300,436.5</b>

Note: Interest on domestic debt has been estimated based on a 1% growth rate in 2020 and 2021.

## NEXT STEPS

In Q4, ERLP will continue to support the data collation/analysis and related debt recording and tracking activities for the debt management committee through 2021. Initial estimates of debt servicing obligations for incorporation within the 2022 CY budget proposal will be developed and submitted to MOF for review as well. Work will also continue with UNCTAD and CBY/MOF to facilitate the installation of DMFAS 6 as soon as the contract is signed, and the anticipated hardware and software resources are

delivered/installed. A related report on the implementation status of DMFAS will be prepared and submitted to CBY and MOF. ERLP debt management experts will also prepare an analysis assessing strategic options for addressing the current government overdraft balance at CBY; which will be submitted to MOF and CBY for review. ERLP debt management experts will, in addition, deliver a series of training workshops to relevant CBY and MOF officials and technical staff on various debt-related topics; including debt instruments, the role of MOF in debt management, and DMFAS 6.

## **I.2.4 BUDGET PLANNING**

### **BACKGROUND**

The ERLP Budgetary Planning component is focused on systematic budgetary reforms designed to strengthen budgetary planning processes and outcomes. Priority focus areas include development of a sound budgetary policy/procedural framework, integration of GFIS-compliant budget coding requirements, and development of a robust expenditure prioritization strategy and procedural framework. Within this overall context, the project also provides targeted capacity-building assistance to MoF staff to promote reforms in critical budgetary allocation areas, and development of an initial integrated medium-term budgetary framework (with integrated recurrent and capital budgets) for key sectoral areas, such as healthcare and education.

### **QUARTERLY WORK ACTIVITIES AND DELIVERABLES**

ERLP experts finalized the CY2022 budget circular draft, which will help guide the CY2022 budget preparation process in a more efficient and transparent direction. The circular comprises a list of guidelines and procedures that need to be followed by the different budgetary units in Yemen.

The ERLP fiscal team also continued to work with senior MOF officials to improve the existing budget classification structure in compliance with core GFS principles. Within this context, ERLP experts prepared a new budget classification manual (attached), which will guide the transition from the existing structure to a better practice compliant GFS-based structure. Additionally, ERLP has introduced the basic concepts required for establishment of a Medium Term Expenditure Framework (MTEF), which will be implemented on a preliminary basis in two key pilot sectors -- education and healthcare. The initial MTEF conceptual framework has been developed through ongoing consultation with an intergovernmental committee composed of senior staff from the Ministries of Finance, Education, and Health.

ACTIVITIES	DELIVERABLES
Developing mid-year review covering key expenditure trends/revised estimates for CY 2021.	1. A mid-year budgetary review report finalized, covering key expenditure trends/revised estimates for CY 2021.
Provide technical support for the initial development of budget circulars and related procedural guidelines for the initial preparation of the CY 2022 budget.	2. Comprehensive budget circulars and related procedural guidelines for initial preparation of the CY 2022 budget finalized.
Facilitate adoption and initial implementation of regulatory/procedural reforms designed to promote an efficient budget prioritization process for the CY 2022 budget.	3. Detailed regulatory/procedural reforms finalized, which promote an efficient budget prioritization process for the CY 2022 budget.
Support establishment of an organized budgetary planning process designed to facilitate the development of an integrated medium-term expenditure framework for 2-3 key budgetary sectors.	4. An organized budgetary planning process adopted, which effectively facilitates an integrated medium-term expenditure framework for 2-3 key budgetary sectors (including the establishment of related sectoral working groups).
Initiate implementation of a GFIS-compliant budget coding manual for the MOF for purposes of CY 2022 budget estimation purposes.	5. A GFIS-compliant budget coding manual is adopted by the MOF for purposes of CY 2022 budget estimation/preparation purposes.
Provide structured training support on better practice compliant budget preparation and classification procedures.	6. At least 4-6 structured training sessions provided on better practice compliant budget preparation and classification procedures.

## I. MID-YEAR BUDGETARY REVIEW

During the first half of FY2021, the government spent YER 580 billion in South Yemen based on the expenditure plan that the Cabinet approved in March 2021. As presented in Table 16, almost 16 percent of total expenditures were provided at the local level. While goods and services represented the major share of total expenditures at 40 percent, wages and employee compensation accounted for 30.7 percent. Expenditures on social subsidies, grants, and benefits represented 23.4 percent of total expenditures. During Q3, ERLP supported the MoF in developing the expenditure plan for the second half of FY 2021 according to the CY2021 fiscal framework, with which the project assisted the MoF in formulating.

**Table 16: Actual Expenditure of the First Half of Fiscal Year 2021**

Expenditure Items	Actual Expenditure (January – June 2021/in YER million)			
	Central	Local	Total	% Share
Part (1): Wages and Employees Compensations	96678	81537	178215	30.7
Part (2): Expenditure on Goods and Services	230411	1226	231637	39.9
Interest Payment	8647	384	9031	1.6
Part (3): Social Subsidies Grants, and Benefits	135596	39	135635	23.4
Part (4): Non-Financial Asset Acquisition	3683	9892	13575	2.3

Expenditure Items	Actual Expenditure (January – June 2021/in YER million)			
	Central	Local	Total	% Share
Unclassified Expenditure	12103	-	12103	2.1
Total Expenditure	487118	93078	580196	100.0
Financial Asset Acquisition	8000	-	8000	
Liability Repayment	16009	-	16009	

**II. CY2022 BUDGET CIRCULAR**

During the reporting period, the ERLP team worked with the MoF to develop the CY2022 budget circular, which contains nine key sections. This circular provides the fundamental guidelines required for preparing the national budget. The guidelines are to be followed by the central government and all spending units at the central and local levels. ERLP coordinated closely with relevant MoF staff to ensure that the developed circular is based on PFM best practice principles, while remaining consistent with the overarching fiscal laws and regulations of Yemen. The circular highlighted the macro-economic and fiscal objectives that the Government of Yemen (GoY) is targeting during CY2022, including an economic growth rate of 2.8 percent, an inflation rate of approx. 10 percent, and a budget deficit of 5 percent of GDP.

The budget circular covers the core fiscal reforms that the MoPIC and MoF are focused on implementing during CY 2022 on the revenue and expenditure side, in order to enhance budgetary effectiveness and efficiency. The core focus in the budgetary revenue area is on enhancing tax administration capacity and performance through introduction of major institutional and administrative reforms in key functional areas; and developing a multi-year revenue strategy.

On the expenditure side, the circular highlights the core anticipated focus on enhanced budget prioritization through introduction of MTEF in the education and health sectors; and the utilization of GFS-compliant functional classification structures that help better link major public policy objectives to budgetary allocations. In addition, the circular underscores the MoF’s focus on controlling the fiscal deficit in support of macroeconomic stability objectives, and limiting the government’s reliance on Central Bank over-drafts.

The circular also includes detailed guidelines for the preparation of the CY2022 budget. These cover the definitions of budget line items under each revenue and expenditure chapter; provide the estimation approach utilized for each line item. The circular includes as well detailed timelines for submission and discussion of the draft CY2022 budget. It is worth noting that this will mark the first time since the re-initiation of conflict that the GOY will be following a clear fiscal calendar. (See Annex 19 – Budget Planning – English Summary of Budget Circulars and Related Procedural Guidelines for the Initial Preparation of the CY 2022 Budget)



### III. CY 2022 BUDGET PREPARATION

Based on the CY2022 Budgetary Policy and Procedural Framework and the Budget Circular developed in cooperation with the MoF staff, ERLP specialists initiated intensive discussions in Q3 with the MoF and the MoPIC regarding budget prioritization processes for FY2022. The team is analyzing the implementation of the CY2021 first semester expenditure plan, as a key input for purposes of formulating the CY2022 fiscal framework; and has also initiated organized budgetary prioritization processes across pilot sectors, as discussed further below.

### IV. AN ORGANIZED BUDGETARY PLANNING PROCESS ADOPTED, WHICH EFFECTIVELY FACILITATES AN INTEGRATED MEDIUM-TERM EXPENDITURE FRAMEWORK FOR 2-3 KEY BUDGETARY SECTORS

ERLP supported the MoF and MoPIC in initiating introduction of a preliminary version of the MTEF budget planning approach to the pre-university education and healthcare sectors. To facilitate the introduction of MTEF to the two key sectors, an inter-governmental committee comprising members from MOPIC, MOF, MOE, and MOH was formed with ERLP support. The project has worked closely with the committee to evaluate the existing budgeting structure of the two key sectors and is developing a process for rationalizing/ranking projects according to sectoral priorities; and linking key activity streams to medium-term expenditure objectives.

#### I. Current Sectoral Budgeting Structure

ERLP has worked with the committee to assess the existing sectoral budgeting process in Yemen. This is characterized by a centralized, top-down supervisory approach of key line items through the MOF. Moreover, the sectoral budget preparation process appears to be fragmented and misaligned. In this regard, individual spending units within the education and healthcare sectors (at the central and local levels) submit their budget proposals to MoF and MOPIC in accordance with distinct schedules, and in the absence of a consolidated budget planning process. Table 17 presents the features of the current sectoral budgeting process in Yemen.

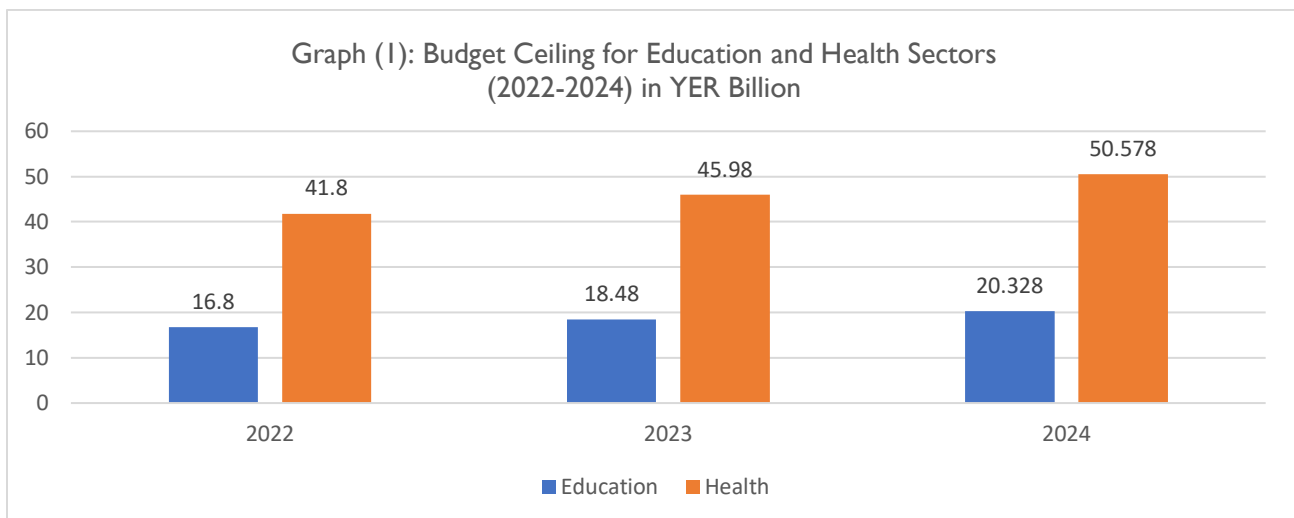
**Table 17: Features of the Existing Sectoral Budgeting Process in Yemen**

Inefficient Financial Allocation Practices	Fragmented Budgeting Processes	Lack of Strategic Guidelines within the Budgeting System
<ul style="list-style-type: none"><li>• Lack of program-based, result-oriented budgeting practices</li><li>• Absence of a time-framed fiscal management perspective.</li><li>• Weak links between recurrent and capital expenditures</li></ul>	<ul style="list-style-type: none"><li>• Each government entity belonging to each of the two sectors, education and health, has its own budget.</li><li>• The MoF does not fully enforce budget ceilings on government entities.</li></ul>	<ul style="list-style-type: none"><li>• The Ministry of Healthcare and the Ministry of Education have not developed an overall strategic plan from a socio-economic development and fiscal policy perspective</li><li>• Each spending unit has fragmented policy objectives that don't link to an overarching government plan</li><li>• No type of cost/benefit or cost-efficiency analysis is applied to test the validity of the economic objectives set by each spending unit</li></ul>

## 2. Key Steps taken towards the Introduction of MTEF in the Education and Healthcare Sectors

ERLP has conducted a series of meetings with the MTEF inter-ministerial committee to advance the introduction of basic medium-term expenditure principles within the budget process for health and education. The project has helped train committee members on core MTEF procedures and strategic planning guidelines. It also has worked with relevant MoE and MoH budgetary officials to assess strategic planning needs in the two ministries (each effectively ceased strategic planning activities in 2014). Consequently, ERLP experts have worked with ministerial officials to initiate the establishment of the core strategic objectives that will be the basis of a three-year budget framework for the MoE and MoH.

In addition, ERLP has been working closely with MoF to set a realistic financial ceiling for the two sectors at the central level, based on current macro-fiscal projections, as well as actual expenditures across the two sectors over the past two years. In this regard, Graph 1 below provides the preliminary proposed budget ceiling for the two sectors over the three fiscal years 2022-2024. It is worth noting that actual pre-university education sector expenditures at the central level accounted for approx. 1 percent of total expenditures in CY2022, while health expenditures represented about 2.35 percent assigned of total spending at the central level -- both anemic expenditure shares in regional and international terms. (See Annex 20 – Budget Planning - Towards an Organized MTEF based Budgetary Planning Process in Health and Education Sectors in Yemen)



## V. GFS COMPLIANT BUDGET CODING MANUAL

During this quarter, ERLP conducted an assessment of the Yemeni budget classification system, which indicated that Yemen’s economic classification structure is broadly compliant with IMF Government Finance Statistics (GFS) standards. At the same time, the examination revealed that a number of additional classificatory adjustments will need to be made to improve compliance with the latest edition of the IMF GFS manual, issued in 2014. At the same time, the analysis revealed that the functional classification system being applied is not compliant with IMF GFS standards. Currently, MoF uses a simple five-function classification structure covering general services, education, health, social services, and economic functions. In contrast, the GFS structure includes ten core functions, as displayed by Table xx. Thus, ERLP, in collaboration with MOF and MOPIC senior staff, has introduced a revised

classification manual for the Functions of Government (COFOG), which represents an integral aspect of the wider IMF GFS framework.

The MoF has, in this regard, agreed to move from the current functional budget classification to the GFS-compliant budget classification, as reflected in Table 18. ERLP specialists will provide targeted technical support to the MoF to prepare the CY2022 functional budget based on the GFS compliant functional classifications. This, in turn, will indirectly facilitate significant further enhancement in budgetary analysis/prioritization processes.

**Table 18: Current Functional Classifications in Yemen vs. GFS Compliant Functional Classification**

Current Functional Classification	GSF Compliant Functional Classification	
01 General Public Services	01 General Public Services	06 Housing and Community Amenities
02 Education	02 Defense	07 Health
03 Health	03 Public Order and Safety	08 Recreation, Culture, and Religion
04 Social Affairs	04 Economic Affairs	09 Education
05 Economic Affairs	05 Environmental Protection	10 Social Protection

ERLP has developed a GFS-compliant coding manual, as displayed in Table 19. COFOG provides a standard classification of government functions. This classification is again critically important for purposes of facilitating efficient tracking of sectoral policies and objectives against related budgetary allocations.

**Table 19: COFOG Divisions and GFS Code**

COFOG DIVISIONS	DESCRIPTION	GFSM 2014 CODE
01 General public services	Executive and legislative organs, financial and fiscal affairs, external affairs; foreign economic aid; general services; basic research; R&D related to general public services; general public services n.e.c.; public debt transactions, transfers of a general character between different levels of government.	701
02 Defense	Military defense; civil defense; foreign military aid, R&D related to defense; defense n.e.c.	702
03 Public order and safety	Police services; fire-protection services; law courts; prisons; R&D related to public order and safety; public order and safety n.e.c.	703
04 Economic affairs	General economic, commercial, and labor affairs; agriculture, forestry; fishing and hunting; fuel and energy; mining, manufacturing, and construction; transport; communication; other industries, R&D related to economic affairs; economic affairs n.e.c.	704
05 Environment protection	Waste management; water waste management; pollution abatement; biodiversity and landscape protection; R&D related to environmental protection.	705

COFOG DIVISIONS	DESCRIPTION	GFSM 2014 CODE
06 Housing and community amenities	Housing development; community development; water supply; street lighting; R&D related to housing and community amenities; housing and community amenities n.e.c.	706
07 Health	Medical products, appliances, and equipment; outpatient services; hospital services; public health services; R&D related to health; health n.e.c.	707
08 Recreation, culture, and religion	Recreational and sporting services; cultural services; broadcasting and publishing services; religious and other community services, R&D related to recreation, culture and religion; recreation; culture and religion n.e.c.	708
09 Education	Pre-primary, primary, secondary, and tertiary education, post-secondary non-tertiary education, education nondefinable by level, subsidiary services to education, R&D; n.e.c.	709
10 Social protection	Sickness and disability; old age; survivors; family and children; unemployment; housing; R&D; social protection and social exclusion n.e.c.	710

ERLP also provided training sessions to MOF staff in their offices in Aden during the past quarter, through which the project presented the main structure of the GFS 2014 and COFOG coding system. During this hands-on training, project experts reviewed the different techniques used by MoF staff to assign different expenditures to budget classification components, and facilitated their realignment in accordance with GFS-compliant standards. (See Annex 21 – Budget Planning - A GFIS-Compliant Budget Coding Manual)

## VI. TARGETED TRAINING FOR MOF STAFF

During Q3, ERLP experts developed and delivered a number of training modules to the core staff of the budget planning department at MOF. These covered MTEF structure, effective establishment/assessment of budget ceilings, and the core guidelines required for establishment of a GFS-compliant budget classification structure. All sessions were interactive and included a detailed review of current expenditure planning processes in Yemen, highlighting key fault-lines/gaps with regard to better practice expenditure classification standards and expenditure prioritization principles.

### NEXT STEPS

In collaboration with the MTEF intergovernmental committee, ERLP will support MoPIC, MoF, and concerned ministries in fully elaborating key strategic objectives for the pre-university education and health sectors at the central level, and to identify the full budgetary costs for achieving these objectives over the FY 2022-24 period; as well as developing a robust three-year budgetary forecast for these sectors.

ERLP experts will also provide targeted technical support to MoF in further developing CY2022 budget projections and a sound macro-fiscal framework, in accordance with the timeframes and analytical processes outlined in the budget circular. We will also work closely with the MoF to develop practical approaches to facilitate effective citizen engagement in the national budgeting process. Moreover, the team will continue to provide targeted training in strategic budgeting, MTEF, GFS-compliant budget classification, and participatory budgeting principles.

## I.2.5 BUDGET IMPLEMENTATION

### BACKGROUND

This quarter, ERLP continued to implement the comprehensive Budget Execution Reform Action Plan, developed in Q2, consisting of detailed guidelines for consolidating commitment control functions within the budget execution cycle, launching new cash-flow forecasting procedures, and initiating effective operations of the Joint Committee for the Management of the Treasury (JCMT).

The new organizational structure for budget administration activities being proposed is designed to improve the capacity of the MOF to achieve its core budget execution objectives, particularly its control over government finance and budget operations. The restructuring process will create a reorganized and upgraded budget execution entity within the MOF (Budget Regulation and Government Accounts Department), which will have expanded authorities and functions covering the entire budget execution cycle.

### QUARTERLY WORK ACTIVITIES AND DELIVERABLES

In Q3, ERLP facilitated the formation of an inter-agency working group including members from MOF and the CBY, which began meeting weekly to adjust cash forecasting estimates. The project made significant progress in its ongoing effort to support the gradual transfer of treasury management functions to the MoF from the CBY with the launch of the Joint Committee for the Management of the Treasury. Also, an operational game plan was developed to effectively interlink current CBY treasury operations to the MOF, and a related organizational restructuring plan was developed in this regard. In addition, during this quarter, ERLP Budget Implementation advisors developed a financial circular that provides better practice consistent guidelines for improving budgetary allotment, commitment control, and payment authorization processes. Finally, during the quarter, the project continues targeted capacity-building efforts in support of the Budget Implementation Action Plan.

**Table 20: Q3 Budget Implementation Activities and Deliverables**

ACTIVITIES	DELIVERABLES
Facilitate the formation of an inter-agency working group consisting of the MOF, CBY, and MOPIC, who meet weekly to adjust cash forecasting.	1. Inter-agency cash forecasting working group established.
Provide ongoing training to MOF employees on revised budget implementation procedures and treasury recording/reporting functions.	2. Ongoing training provided to MOF employees (minimum of 2-3 training sessions) on revised budget implementation procedures and treasury recording/reporting functions.
Facilitate the adoption/implementation of an operational game plan to effectively interlink current CBY treasury operations to the General Administration for the Management of the Public Account (GAMPA) at the MOF.	3. Operational gameplan adopted, which effectively interlinks current CBY treasury operations to the General Administration for the Management of the Public Account (GAMPA) at the MOF.
Facilitate the adoption of major regulatory/operational guidelines designed to improve the efficiency, time-effectiveness, and transparency of budgetary allotment,	4. Detailed regulatory/operational guidelines which cover budgetary allotment, commitment control, and payment authorization processes adopted by MOF. (on a best effort basis)
	5. An efficient set of commitment control procedures adopted for the allocation of bank notifications and financial ceilings

ACTIVITIES	DELIVERABLES
commitment control, and payment authorization processes in the MOF.	based on cash flow forecasting and actual cash flow availability.
Establish an efficient set of commitment control procedures for the allocation of bank notifications and financial ceilings based on cash flow forecasting and actual cash flow availability.	6. Monthly reports on financial planning and cash-flow availability initiated.
Facilitate development/issuance of monthly reports on financial planning and cash flow availability.	7. A detailed organizational restructuring plan approved, which effectively organizes the General Administration for the Management of the Public Accounts (GAMPA) at MOF into five new subdivisions: i) cash and debt ii) payroll management; iii) payments; iv Accounting; and v- financial control.
Facilitate finalization/approval of a detailed organizational restructuring plan for the General Administration for the Management of the Public Account (GAMPA) at the MOF into five new subdivisions: i) cash and debt management; ii) payroll management; iii. payment department; iv. Accounting; and v. financial control department.	8. Comprehensive stock-taking report provided on progress towards the establishment of a Treasury Single Account (TSA) framework (including the reduction achieved in the number of public accounts).

**I. INTER-AGENCY CASH FORECASTING WORKING GROUP ESTABLISHED**

During this quarter MOF and CBY management officials assigned representatives to participate in the ERLP-led Cash Flow Forecasting Working Group. The experts from the revenue planning, budget, and budget execution sectors of the MOF and the operations staff of CBY contributed to the process, by providing actual cash-flow data on and bridging the information gaps and uncertainty concerning future projections. Following intensive training during the quarter on the key principles and arrangements for better practice compliant cash flow forecasting, the Working Group will be assuming the responsibilities envisioned for the planned Cash Management Unit within the new cash and debt management unit of the MOF, until that unit is formally launched. ERLP developed in Q3 an organizational restructuring plan for the MOF Budget Execution Department, including establishing a permanent cash management function, which was presented to the MOF. The Cash Management Unit will continue sourcing the data and advice from counterparts in other units of the MOF, CBY, and other government agencies; in order to build credible cash flow forecasts and effectively monitor actual cash flows.

**II. ONGOING TRAINING PROVIDED TO MOF EMPLOYEES ON REVISED BUDGET IMPLEMENTATION AND CASH FLOW FORECASTING**

During the quarter, ERLP conducted an in-depth review of current allotment and commitment management practices; and provided rigorous training to MOF staff on the new procedures on the budget allotment, commitment controls, and payment processing. These procedures are being designed in a manner designed to facilitate effective integration into a unified budget execution cycle. In-person training was delivered both to officials in the MOF HQ responsible for developing financial regulations, as well as practitioners working in line ministries and the Lahj governorate, in order to broaden and bolster institutional expertise in assessing effective controls.

These training sessions were conducted within the context of development and presentation of a new financial circular. This, in turn, contains new processes and procedures for effectively coordinating

commitment planning and authorization and recording the allotments, commitments, and expenditures of individual spending units.

ERLP experts continued to support the Budget Implementation Action Plan during the quarter, by providing practical analytical skills-focused training designed to address core budget execution needs. Four on-site training sessions for MOF and CBY staff addressed:

1. Effective budget allotment and commitment control processes.
2. The use of historical data for cash flow forecasting purposes.
3. Practical challenges in the forecasting process, including data deficiencies and key concepts of planning and forecasting.
4. Evaluating cash forecasting performance, updating forecasts, and preparing recommendations for the JCMT.

ERLP training activities are designed to promote enhanced understanding of new cash flow forecasting concepts and their practical application. The collaborative engagement of MOF and CBY experts facilitated a shared forecast of government cash flows for 2021; and a subsequent update of the forecast based on actual performance during the period January through May.

The below table summarizes the technical training support provided by ERLP during the quarter to enhance capacity enhancement at MOF:

**Table 21: Q3 Summary of the training activities on budget implementation**

<b>Key Steps for implementing effective allotment and commitment controls in the Government of the Republic of Yemen:</b>	
<ul style="list-style-type: none"> <li>• Identification of expenditure commitments</li> <li>• Building business processes for effective commitment controls</li> <li>• Establishing legal requirements for effective commitment controls</li> <li>• Keeping records of the commitments made and executed</li> <li>• Reporting on commitments</li> <li>• Planning for commitments and requesting MOF authorization.</li> <li>• Identification of commitments and priority expenditure</li> <li>• Evaluating commitment reports</li> <li>• Sanctioning of spending unit officials for breaches of commitment controls.</li> </ul>	
<b>OJT for forecasting government cash flows (Part 1):</b>	
<ul style="list-style-type: none"> <li>• Key objectives and responsibilities of the Cash Management Unit (CMU)</li> <li>• Collection of data for cash flow forecasting</li> <li>• Studying cash flow patterns for the government revenue</li> <li>• Measures to improve revenue inflows and reduce revenue volatility</li> <li>• Addressing data deficiencies.</li> </ul>	
<b>OJT for forecasting government cash flows – (Part 2):</b>	
<ul style="list-style-type: none"> <li>• Forecasting process vs. planning</li> <li>• Developing historical patterns for budget expenditures</li> <li>• Estimating annual expenditure in the absence of an approved budget for 2021</li> <li>• Preparing the initial cash flow forecast</li> <li>• Consultation &amp; coordination in the JCMT, and approval of the cash plan.</li> </ul>	
<b>OJT for forecasting government cash flows – (Part 3):</b>	
<ul style="list-style-type: none"> <li>• Implementing cash plans</li> <li>• Collection of data for monitoring the performance of the cash plan</li> </ul>	

- Updating cash flow forecasts using actual budget performance data
- Assessing the cash plan performance and conducting variance analysis
- Consultation & coordination in the JCMT and revising the cash plan.

### III. OPERATIONAL GAMEPLAN THAT EFFECTIVE INTERLINKS CURRENT CENTRAL BANK OF YEMEN TREASURY OPERATIONS TO THE GENERAL ADMINISTRATION FOR THE MANAGEMENT OF THE PUBLIC ACCOUNT (GAMPA) AT THE MINISTRY OF FINANCE

ERLP has helped initiate efforts to gradually transfer treasury management decisions from the CBY to the MOF. The transition of this function will provide the MOF with current, daily information regarding the budgetary resources available, and the appropriate decisions to be made to manage the treasury's position efficiently. This will enhance the management of public accounts by the MOF; while relieving pressure on the CBY to finance budget deficits through an overdraft facility, and/or increased monetary emissions. Full control over payment processes would be achieved at a subsequent stage, with the implementation of a computerized transaction processing and accounting system within the MOF. To achieve these goals, ERLP has in this regard assisted in designing and launching the Joint Committee for the Management of the Treasury (JCMT), which combines senior-level participants from the MOF and CBY.

This quarter, the JCMT adopted a game plan to effectively interlink current CBY treasury operations to the General Administration for the Management of the Public Account (GAMPA) in the MOF. The first task of GAMPA is to take over the fiscal data function from CBY, and help make the MOF the key source of the fiscal data to monitor budget performance and provide management and public information on government cash flows. Currently, GAMPA collects hard-copy monthly statements on cash flows through the government accounts in the CBY, which are produced following a significant delay at the end of each month. ERLP is supporting GAMPA in the transition to receiving electronic data on cash flows and balances of the government accounts in CBY (this will likely require additional recruitment/training of IT staff in the MOF as well) over the coming months).

During Q3, the key task was to consolidate the data and develop the initial cash flow forecast for 2021, following the game plan for significantly strengthening analytical support for budget execution within the Ministry. In its initial meeting, the JCTM directed the MOF and CBY experts in the Cash Forecasting Working Group to begin cash-flow data collection activities and to produce an initial forecast for 2021, with assistance from ERLP. The cornerstone of the game plan is to provide MOF management with a consolidated presentation of cash-flow data, including the compilation of expected available resources within the budget, and the allocation of resources to pay for the government's priority expenditures.

Under this game plan, the following key responsibilities have been assigned to the JCMT:

- Verifying revenue sources and the government's immediate payment obligations.
- Evaluating the impact of government cash flows on the budget, and proposed measures for balancing the budget.
- Coordinating with the Debt Management Committee on borrowing requirements, as amended, and processes related to the request and receipt of cash flow data related to debt service and amortization.
- Approving the cash plan and making recommendations regarding its management as needed, including adjusting the cash expenditure ceilings of specific spending units.



- Developing recommendations for improving revenue and expenditure management, including commitment controls, and prioritizing expenditures to achieve cash plan objectives.
- Providing guidance to the JCMT working group for further improving cash flow forecasting, including the timely provision of cash flow data and available balances.

The JCMT's working group operates at the technical level and is responsible for:

- Improving cash flow forecasting based on improved data collection and analysis.
- Implementing the cash plan endorsed by the JCMT.
- Conducting updates to cash flow forecasts based on actual data, as well as variance analysis to measure and explain the reason behind deviations identified.
- Identifying information sources to facilitate the timely provision of information to the MOF regarding the government's cash position, revenues, and anticipated high-priority payments that could potentially impact government cash flow.
- Providing recommendations to the JCMT regarding reductions in cash flow volatility and enhanced predictability.
- Once established and at the direction of the JCMT, gradually transferring technical responsibilities to the MOF's Cash Management Unit (CMU), and assisting with its development.

ERLP experts have also been studying practical options and next steps for Treasury Single Account (TSA) reform in Yemen. In this regard, the CBY has been providing the MOF with effective services for consolidating the financial position of the government. The network of government accounts are used for accounting purposes to identify different spending units receiving budget allocations. The MOF, in collaboration with CBY, will focus on piloting electronic processing of government payment transactions, with the goal of establishing a unified hierarchical accounting framework and a single unified government clearance account. GAMPA will assume the key role in government payment functions, with a new unit to be created in the budget execution department to effectively concentrate accounting and reporting functions.

#### **IV. RATIONALIZING THE ORGANIZATIONAL STRUCTURE OF THE MOF'S CORE BUDGET EXECUTION FUNCTIONS**

ERLP has been working closely with MOF counterparts to rationalize the MOF's organizational structure for the budget execution function. The restructuring of GAMPA, a major office within this department, is a fundamentally important aspect of this restructuring process. This, in turn, would help address the following major information collation/analysis deficiencies in the budget execution cycle:

- The absence of systematic and timely collection of actual and future cash flow data, which deprives the MOF of the strategic focus needed for sound budget execution and overburdens the CBY with day-to-day treasury management responsibilities.
- The absence of debt management functions, which has also fallen to the CBY.
- The decentralization of appropriations and allotment records among different units of the MOF and the related absence of necessary controls and reporting, including formal processes that ensure that allotment releases have sufficient cash resources for spending unit commitment and payment.

- The decentralization of the MOF's accounting function, which causes significant delays in consolidation of the necessary data, and providing management and the public with information on fiscal performance.
- The lack of effective control over payment processes.

As a result, ERLP experts have recommended adoption of a revised organizational structure for budget execution functions; comprising the nine functional divisions specified below. The new structure accommodates additional analytical functions, allows for the seamless transition of budget execution functions currently executed by CBY, and clarifies functional lines of responsibilities within the MOF:

- **Budget Records** is an existing function responsible for maintaining budget appropriations and allotments, tracking their changes during the fiscal year, and issuing notifications to concerned parties.
- **Cash Management** – a new function responsible for overall cash management, including cash flow forecasting, implementing cash flow plans, ensuring cash availability for priority payments, and designing and implementing the TSA reform.
- **Debt Management** – a new function transferred from CBY, subject to Debt Management Committee guidance.
- **Treasury Operations** – a new function enabling centralized services for both the execution and recording of government payments, deposits, and other transactions.
- **Payment Controls** – merged functions from various MOF units, designed to ensure that the payment requests comply with regulations and policy guidelines.
- **Payroll Controls** – a restructured function enabling more effective payroll controls and modernizing the payroll payment process.
- **Accounting and Reporting** – a restructured function that consolidates the fiscal and financial reporting responsibilities within the MOF, including collecting periodic financial data from spending units, reconciliation of MOF and CBY records, and provision of periodic statements to users of government data.
- **Regulatory Oversight & Training** – an existing function responsible for issuing new regulations related to budget execution and training staff responsible for monitoring the performance of the financial management staff reporting to the MOF.
- **Information and Communication Technology** – a new function supporting the development, implementation, and maintenance of databases and other ITC infrastructure supporting effective budget execution.

The current staff of GAMPA will be staffed into the new units of Cash Management, Debt Management, Treasury Operations, and Accounting and Reporting. The restructuring plan has been submitted to and is under review by the Undersecretary of the MOF responsible for the sector. It is anticipated that it could be approved during Q4.

#### V. DEVELOPING A SET OF REGULATORY/OPERATIONAL GUIDELINES TO IMPROVE MOF BUDGETARY ALLOTMENT, COMMITMENT-CONTROL, AND PAYMENT-AUTHORIZATION PROCESSES

As referenced earlier, the ERLP/Fiscal team, in collaboration with MOF counterparts, drafted a better practice compliant financial circular that details a set of regulatory/operational guidelines needed to effectively address existing budgetary control/tracking fault lines. These include the following:

- A new procedure whereby allotments are based on MOF review of individual spending unit financial plans. The new procedure will allow for both monthly and quarterly budget allotments for the authorization of commitments and payments.
- An allotment and commitment expenditure ledger that will record budget management, commitment, and payment records, thus providing a simple, integrated tool for expenditure control. Accounting officers in individual spending units will record allocation, commitment, and payment transactions in accordance with economic classification structures.
- An allotment and commitment expenditure report summarizing the various stages of the expenditure cycle, and providing the MOF with comprehensive information regarding the management of expenditures by spending unit.

Notably, the draft circular includes penalties for violations of commitment controls and reporting. The MOF team has reviewed the draft circular and confirmed that the regulation is in line with all legal requirements. It is anticipated that the circular will be adopted over the coming months.

#### VI. MONTHLY REPORTS ON FINANCIAL PLANNING AND CASH-FLOW AVAILABILITY INITIATED.

During Q3, ERLP assisted the MOF in producing the initial cash flow forecast for the remainder of 2021, providing an estimate of available cash for each of the remaining months of the fiscal year. These forecasts will be further reviewed and updated monthly, as actual cash flows become available for the prior month. The JCMT Working Group will review the resources available, and provide recommendations to the high-level JCMT on priority measures to improve cash management.

#### VII. A DETAILED ORGANIZATIONAL RESTRUCTURING PLAN FOR GAMPA APPROVED,

As per the analysis described above, during Q3, ERLP undertook an analysis of the organizational structure of the MOF to assess requirements for and make recommendations designed to establish a more efficient and better-organized set of budget monitoring & control functions. This culminated in a comprehensive restructuring plan for all budget execution functions of the MOF, including GAMPA; covering core functions such as cash management, debt management, payment processing, payroll controls, and fiscal reporting,

The goal of these recommendations and related organizational and procedural reforms is to help MOF assume comprehensive and efficient oversight of the financial execution of the state budget, covering the cash inflows, the full budgetary execution cycle. This comprehensive approach, consistent with the functional reforms presented in Section IV above, will facilitate enhanced coordination and effective management of the budget execution processes. (See Annex 22 – Budget Implementation - Organizational Restructuring Plan for the MOF to Improve the Budget Execution)

The Ministry of Finance is divided into the seven below-listed organizational departments. Each is headed by undersecretaries and made up of several sub-divisions or units.

- Budget
- International Financial Relations
- Regulations and Government Accounts
- Follow-up Statistics and Planning
- Economic Units
- Financial and Administrative Affairs

- Revenue

The staffing levels of the current structure vary widely, as many units have limited or no staff since the transition from Sanaa to Aden. The chart below presents the organizational plan to restructure the current Regulations and Government Accounts Department, transforming it into the new Budget Execution Department.

The current Regulations and Government Accounts Department is not charged with carrying out core budget execution functions. To build an effective unit to oversee budget execution, the MOF should streamline the department along the functional lines and add missing functions.

In this regard, the units charged with current and capital expenditures would be consolidated under payment controls. The focus on payroll control reflects the large share of government expenditures being allocated to wage-salary payments, and the importance of developing an adequate procedural framework required to transparently allocate and track payroll distribution, while reducing/eliminating ghost salary activities.

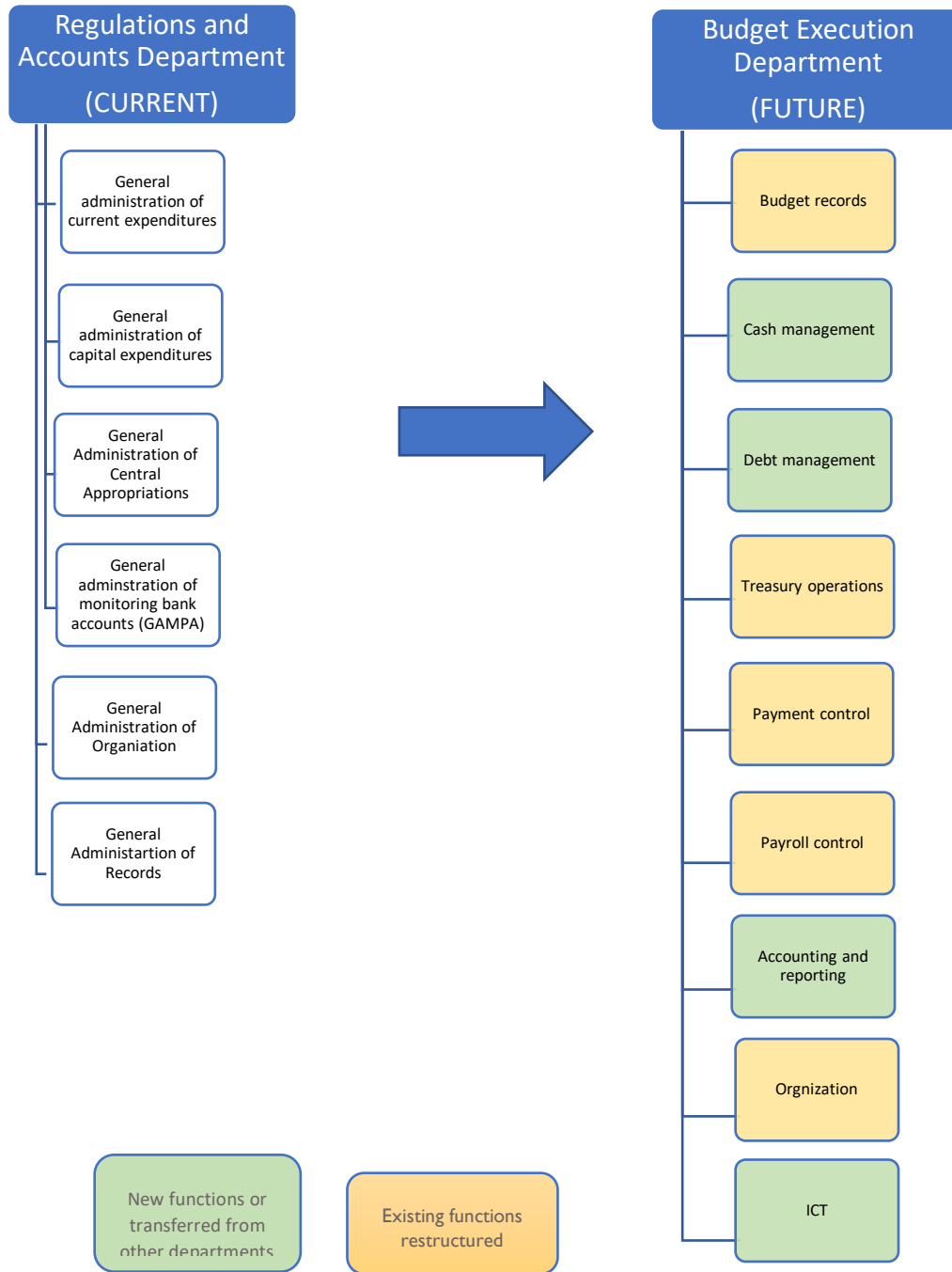
In addition, the General Administration of Monitoring Government Bank Accounts (GAMPA) Division needs to be restructured to effectively carry out newly defined functions for cash management, debt management, as well as treasury operations. All of these are now being partially executed by CBY.

The Budget Records division would be restructured as well to add commitment controls and government vendor records. The purpose here is to create a clear record of budgetary allotments issued and subsequent changes during the budget execution process.

Overall the organizational restructuring process will help address the following issues:

- Concentrate the responsibilities for systematic and timely collection of actual and future cash flow data, in order to facilitate sound budget execution activities, and eventual transfer of day-to-day treasury management responsibilities from the CBY to MOF.
- Allow the gradual restoration of debt management functions from CBY to the MoF, beginning with the articulation of borrowing and debt management strategy.
- The centralization of accounting records and reporting to restore centralized MOF control over financial recording and tracking processes and enable timely information flows on fiscal resource allocation/utilization. This should include the establishment of formal budgetary tracking/review processes to ensure that allotment releases have sufficient cash resources to cover envisaged spending unit commitments and payments.
- Restoring effective control over payment processes, with particular emphasis on payroll payments, by enabling a single channel for the government payments from the Treasury Single Account (TSA) system.
- Establishing an effective and well-organized ICT function to enable computerized support for the key business processes, and enhanced coordination of the budget execution.

**Figure 3. Organizational restructuring to create effectively organized and monitored budget execution functions.**



**VIII. COMPREHENSIVE STOCK-TAKING REPORT PROVIDED ON PROGRESS TOWARDS THE ESTABLISHMENT OF A TREASURY SINGLE ACCOUNT (TSA) FRAMEWORK**

ERLP experts have also been studying practical options and next steps for Treasury Single Account (TSA) reform in Yemen. In this regard, the CBY has been providing the MOF with basic financial oversight services designed to help track the financial position of the government. The network of

government accounts are used for accounting purposes to identify different spending units receiving budget allocations. However, ongoing fragmentation of accounts remains an underlying issue. In this regard, the MOF, in collaboration with CBY, plans to focus with ERLP technical/training support on piloting electronic processing of government payment transactions, with the goal of establishing a unified hierarchical accounting framework and a single unified government clearance account. GAMP will, within this context, assume the key role in government payment functions, with a new unit to be created in the budget execution department to effectively concentrate accounting and reporting functions.

In turn, additional progress towards full establishment and operationalization of a functioning the Treasury Single Account (TSA) reform will ultimately entail establishment of a centralized government accounting and payment system based on an Integrated Financial Management Information System (IFMIS), which can produce payment instructions to process from a single government account in CBY, and revenue payments posted to the IFMIS ledger. In the near term, a transitional solution would be the extension of the semi-manual CBY account management system (with the establishment of a unified overarching government clearance account) to the MOF; in a manner which would help initiate centralized payment processing.

#### **NEXT STEPS**

During the next quarter, ERLP experts will assist the JCMT working group in further developing capacity to monitor government cash flows, update the cash flow forecast, and assist senior members in reviewing the forecasts. ERLP experts will continue collaborating with MOF on fine-tuning and finalizing approval of the circular to manage budget allotments, commitment control system, and subsequent payments, and preparing to implement the new procedures. ERLP will also continue supporting the MOF in improving its organizational structure to enable the ongoing transfer of the treasury management functions from CBY; and will further expedite adoption of initial organizational and procedural steps towards the transition to a semi-automated TSA system.

### **I.3 STRENGTHENED TRADE FACILITATION POLICY DEVELOPMENT AND IMPLEMENTATION**

The Trade Facilitation (TF) subcomponent works to reduce trading costs/delays and corrupt practices and increase transparency to integrate Yemen into the global trading environment.

This is being achieved by continuing to introduce modern trade facilitation measures (per the WTO TFA), digitalizing trading procedures, and reducing the number of documents and non-tariff barriers to trade. These targeted actions will serve on an ongoing basis to (i) facilitate the flow of essential goods into Yemen, particularly humanitarian aid, food products, and critical medical supplies for countering COVID-19; (ii) enhance the competitiveness of Yemeni producers, particularly SMEs; and (iii) promote Yemeni exports. ERLP also focuses on the longer-term development of port services in Gulf of Aden ports to achieve targeted operational improvements.

During this quarter, the ERLP undertook a range of activities to reduce clearance and dwell times and trade costs, enhance public-private dialogue and partnership, and enable greater port efficiency through streamlining port logistics.

### I.3.1 TRADE FACILITATION

#### QUARTERLY WORK ACTIVITIES AND DELIVERABLES

During this quarter, the Trade Facilitation component of the ERLP project focused on implementing the TFA, including establishing the NTFC, enhancing and operationalizing the Yemen Trade Portal, expanding and enhancing the AEO Program, further developing Risk Management (RM), Post-Clearance Audit (PCA), and Valuation Capabilities. ERLP also addressed cross-border cooperation and developed the capabilities and capacity of the Customs Training Center.

**Table 22: Q3 Trade Facilitation Activities and Deliverables**

ACTIVITIES	DELIVERABLES
Strengthen the NTFC	1. Needs Assessment for NTFC Secretariat completed
Build capacity on AEO	2. Draft WTO TFA notifications prepared
Develop Risk Management, Post-Clearance Audit, and Valuation Capabilities	3. One AEO Awareness event delivered
Institute Advance rulings	4. One event on customs risk management delivered
Institute Administrative Appeals	5. One event on Advance Rulings delivered
Bolster Coordinated and Integrated Border Management	6. One event on Administrative Appeals and Review delivered
Facilitate Exports to Target Markets	7. Regulations for Post-Clearance Audit on system audit accepted and is being considered for adoption
	8. Awareness materials on advanced ruling developed
	9. Awareness materials on Administrative Appeals developed
	10. Roundtable for discussing and finalizing Coordinated Border modality organized
	11. Export guidelines for perishables products in foreign markets with a focus on coffee and honey
	12. Webinar on export guidelines delivered

#### I. TRADE FACILITATION AGREEMENT IMPLEMENTATION

Subsequent to the formal establishment of the National Trade Facilitation Committee (NTFC) under MOIT Ministerial Resolution 12-2021, ERLP conducted a needs assessment for establishing the NTFC Secretariat to support and coordinate the work of the NTFC in advancing the implementation of trade facilitation measures. ERLP further assisted in preparing initial draft notifications for categories A, B, C under the WTO TFA for discussion and finalization by NTFC and further transmission to the WTO.

To date, ERLP supported 12 WTO TFA provisions comprising Post-clearance Audit, AEO, Risk Management, Consultations (Public-Private Dialogue), Use of International Standards (Customs Valuation), Publication, Information Available Through Internet (Trade Information Portal), Advance Rulings, Administrative Appeals and Review, Single Window, National Trade Facilitation Committee, and Border Agency Cooperation.

#### II. EXPANDING AND ENHANCING THE AEO PROGRAM

The AEO Program is a key trade facilitation initiative being taken forward by YCA with the support of ERLP. The program is helping build a working partnership with economic operators engaged in international trade, and is focused on speeding up and simplifying the customs clearance procedures for importation and exportation of goods.

During this quarter, ERLP finalized outreach materials and assisted YCA to hold a Trade/Customs Awareness Event, “Working Together for a Better Future - Authorized Economic Operator Program,” on June 1, 2021. Keynote speeches and panel discussions at the event were dedicated to building a partnership approach between YCA and the private sector through the expansion of the existing AEO program to encompass importers, exporters, customs brokers, and carriers. The importance of the AEO program and its international dimension in promoting global trade was emphasized to attendees; and it was highlighted that many MENA Region countries, including Algeria, Egypt, Jordan, Kingdom of Bahrain, Morocco, Oman, Qatar, Tunisia, Saudi Arabia, and the United Arab Emirates, are now engaged in developing AEO programs. As importantly, 87 bi-lateral and four plurilateral/regional Mutual Recognition Agreements (MRA) have been concluded, and 78 MRAs under negotiation.



Deputy Chairman of YCA Granting an AEO Certificate to a New Trusted Trader Hand in Hand with President of Chamber of Commerce, June 1. – Photo: ERLP TF Team

The event was attended by twenty-five participants, primarily from the private sector; the YCA Deputy Chairman, the General Manager of Risk Management and Audit, and the Head of the AEO Unit were also in attendance. Two new operators were presented with their AEO certificates by the YCA Deputy Chairman at the event’s conclusion, bringing the total number of AEOs to five. There are currently eight applications for AEO status under consideration YCA.

The ERLP team also drafted a five-point blueprint (game plan) to expand the existing AEO program to include Mukalla Port businesses. This expansion to Mukalla Port is intended to enhance further security and facilitate the movement of goods crossing the country’s border.

### III. ENHANCE AND OPERATIONALIZE THE YEMEN TRADE PORTAL

During this quarter, ERLP started to procure the server for uploading the trade portal prototype. The hardware is expected to be delivered during the first week of July. ERLP will then work with MOIT to install the software and launch the trade portal in August 2021. ERLP will also be providing training to the MOIT on maintaining and updating the portal. The trade portal will enhance transparency, predictability, and access to trade-related regulatory and procedural information, which are deemed crucial for enhancing the development and growth of SMEs.

### IV. DEVELOP POST-CLEARANCE AUDIT AND RISK MANAGEMENT CAPABILITIES



## Post-Clearance Audit (PCA)

As part of its efforts to reduce the time and costs of moving goods across borders, the ERLP/TF component continues to work closely with YCA to build its PCA capacity.

During this quarter, the ERLP worked closely with the newly established PCA Unit manager to advance the adoption of the necessary legal framework for conducting comprehensive PCA audits. The proposed PCA regulations were accepted by the PCA Unit and have been submitted to the YCA chairman for approval. Sound implementation of PCA will enhance the application of the AEO program and facilitate trade.



Group photo at the end of RM Event for YCA officials, June 8, 2021. --Photo: ERLP TF Team

## Risk Management (RM)

On 8th June 2021, ERLP continued capacity-building activities to strengthen YCA RM capabilities by providing RM-focused training to twelve (12) YCA managers and staff.

During the blended workshop/webinar training, the ERLP experts provided participants with an insight into the importance of RM to modern Customs operations; and detailed each of the steps contained in the World Customs Organization (WCO) RM process. Attendees had the opportunity to test their understanding and knowledge during various discussions and Q&A sessions.

### V. INSTITUTE ADVANCE RULINGS

Advance Ruling (AR) programs are a proven trade facilitation tool that reduces trading costs and delays, increases transparency and predictability, and reduces disputes between traders and Customs. Economic operators obtain precise and binding information in advance of importing goods -- allowing them to plan their operations with certainty. Disputes with the Customs authority on tariff, origin, and valuation issues are thus reduced since the deliberation process among officials has taken place before the issuance of the AR. Advance Rulings constitute a fundamentally important customs procedure that allows Customs officials to decide in advance on the classification, origin, and valuation of goods ahead of their arrival.

Thirteen YCA managers and staff from the General, Legal, Valuation, and Audit departments participated in a webinar workshop ERLP delivered on introducing a YCA AR program on April 4. workshop. Participants learned that providing an AR facility for Customs Classification, Origin and Valuation was part of the standards contained in the WTO TFA and the Revised Kyoto Convention (RKC). The importance of AR from a trade facilitation perspective was also highlighted. The role and responsibilities of an AR Unit and the establishment of the legal framework and procedural aspects, including publication of AR guidance for economic operators, were discussed.

At the end of the Workshop, the participants reviewed a draft activity plan prepared by ERLP covering the development of an AR program and Unit in Yemen. It was agreed that the draft plan and supporting materials provided by the ERLP team would be discussed further with YCA senior management to help move forward with the introduction of an advance rulings program.

## VI. INSTITUTE ADMINISTRATIVE APPEALS



Part of YCA Officers Learning about Administrative Appeals and Review, April 7, 2021. – Photo: ERLP TF Team

is focused on fomenting a more transparent, simplified, and consistent review and appeals process. The effort will help ensure that YCA administrative review and appeals procedures meet WTO Trade Facilitation Agreement, Article 4, recommendations, as well as key standards of the Revised Kyoto Convention.

It is critical for YCA and economic operators involved in international trade that any disputes regarding compliance with the Customs Law and regulations are addressed and resolved quickly and efficiently. This requires a comprehensive, transparent, and effective administrative appeal procedure, which provides an alternative dispute resolution mechanism to pursuing court cases.

On April 7, ERLP experts successfully facilitated a webinar workshop on administrative review and appeals procedures for YCA officials. ERLP support

The event aimed to benchmark YCA administrative appeal procedures against international best practices in the application of Customs Administrative appeals, identify improvements to reduce disputes (both review and appeal of decisions) and provide a transparent, simplified, and consistent review and appeals process at the YCA. Attendees were provided with details of the review and the appeal requirements of the WTO TFA, Article 4, and the RKC provisions. They then discussed and assessed the existing legal provisions and appeal procedures and identified several areas of enhancement to provide a more robust review and appeals process.

ERLP experts intend to follow up the workshop by assisting YCA senior managers to implement a range of recommendations to ensure the Customs Administrative review and appeals procedure in Yemen meets international best practice standards, including the ease of accessibility and transparency.

## VII. BOLSTER COORDINATED AND INTEGRATED BORDER MANAGEMENT

### Border Agency Cooperation

The ERLP/TF Team drafted an MOU that seeks to streamline border management by enhancing interagency integration/coordination. The MOU establishes the respective roles and responsibilities of various government agencies while ensuring their compliance with relevant legislative provisions and overarching administrative and procedural arrangements. The draft MOU was translated and shared

with YCA and other relevant border control agencies for review, with ratification expected early next quarter.

The project facilitated on June 15 a Coordinated Border Management (CBM) roundtable for Yemen border agencies. Senior and middle management officials from YCA, MOAIF (PPD & AHVQD), YSMO, and Yemen Environmental Protection Authority (YEPA) participated in the event.

In his opening remarks, Mr. Mohamed Dohni, Deputy Chairman of YCA, stressed the importance of CBM development to help simplify existing border regulatory procedures and border management processes relating to the import and export of goods. The event highlighted the importance of CBM principles as the basis for closer coordination and cooperation between all relevant government agencies involved in Yemen border management procedures related to the control of goods.



Participants of CBM Discussing the Way Forward in Interagency Roundtable Held on July 15. – Photo: ERLP TF Team

Discussions also focused on reviewing the CBM Modality report and draft inter-agency Memorandum of Understanding (MoU) previously submitted by ERLP. Attendees discussed the overall content of the MoU, which is aimed at providing an important formal governance structure for CBM going forward, and agreed to:

- Provide any further comment on the MoU draft to YCA by June 25; and
- Hold a further meeting in July to ratify the MoU and thereby lay the foundation for moving forward CBM in Yemen

## Cross-Border Cooperation

During the previous quarter, ERLP undertook a cross-border cooperation assessment between the Yemen and KSA customs administrations, based on a questionnaire developed and administered by the project earlier this year. The assessment identifies potential joint cross-border controls and seeks to facilitate cooperation on the movement of goods by eliminating redundant processing and physical inspections. This quarter, the TF Team translated its draft assessment report and shared it with YCA for their review. The Team followed up with YCA to promote initiatives for cross-border cooperation.

## VIII. DEVELOP THE CAPABILITIES AND CAPACITY OF THE CUSTOMS TRAINING CENTER

Customs administrations need to invest in human resources in a fast-changing environment to deliver on the trade facilitation priorities set for them by the government. To achieve this, they need to establish a cadre of professional customs officers who can efficiently perform their duties. This requires that

officers acquire and develop a wide range of skill sets, knowledge, attitudes, and behaviors through a comprehensive and complex learning process.

This quarter, ERLP prepared and delivered several training events to enhance the skills and knowledge levels of YCA managers and staff. The events included RM, AR, and Administrative Appeals.

## IX. FACILITATE EXPORTS TO TARGET MARKETS

ERLP completed an assessment of best food safety assurance practices in regional (MENA) countries to develop the Export guidelines for perishables products in foreign markets focusing on coffee and honey. Relevant lessons learned were outlined for Yemen's actors of these value chains, particularly YSMO and the private sector. Guidelines were developed based on these findings, which were shared during a seminar in late May. With the latest market information on trade volumes, destinations, buyers, and flows from Yemen and other MENA countries to the world, the seminar showed stakeholders where Yemen's markets are currently headed (even during the pandemic) and how they can be expanded by understanding modern approaches to competitiveness.



YSMO & PPD Officials Attending the Exports Guidelines Workshop, May 25, 2021. – Photo: ERLP TF Team

Both, Sidr honey and coffee, are important income generators to Yemen, but much more has changed for the honey sector in the last few years concerning standards. Producers better understand the pressure to compete by using effective marketing programs as well as the need to implement food safety systems such as Hazard Analysis Critical Control Point (HACCP). The purpose of these guidelines (developed in coordination with the ERLP Market Linkages team) is to transfer more competitiveness know-how to Yemeni exporters to expand their market access and protect it from product rejection due to more stringent standards.

The guidelines were shared with 20 webinar participants held on May 25, among which were active honey and coffee exporters and with YSMO and Ministry of Agriculture's Plant Protection Department (PPD) representatives. After covering the core content of the export guidelines, webinar participants brought up additional specific challenges, such as the climbing cost of logistics and the difficulty of finding packaging solutions. The seminar concluded with the importance of complying with standards that are no longer only enforced by the EU, the U.S., and other markets, but also by Saudi Arabia and other relevant destinations for Yemeni coffee and honey. A number of concrete recommendations were made to the private sector representatives encouraging more interaction to explore solutions to increase competitiveness.

## I.3.2 TRANSPORT AND LOGISTICS

### QUARTERLY WORK ACTIVITIES AND DELIVERABLES

The ERLP Transport and Logistics team supported port productivity improvements, provided further recommendations on the reorganization of the ACT container yard and method of storing and charging for empty export containers, and conducted the second detailed focus vessel exercise. Furthermore, the team supported the Project Implementation Unit in improving port infrastructure, enhancing marine services and logistics, and delineating the process for developing a Maritime Single Window for the port and its website; informed a roundtable seminar on road transport costs; and developed materials to improve the capabilities and capacity of the Maritime Training Center.

**Table 23 – Q3 Transport and Logistics Activities and Deliverables**

ACTIVITIES	DELIVERABLES
Support Port Productivity Improvements at the Port of Aden	1. Job descriptions for key staff at ACT developed
Modernize Terminal Operating System at the container terminal	2. Revised organogram for Aden Container Terminal developed
Build the Capabilities and Capacity of the Maritime Training Center (MTC)	3. ACT signed agreement with DP World for upgrading the TOS to the latest version
	4. Training materials for delivery by the MTC expanded
	5. Two “focus vessel” exercises were completed with recommendations for improving port performance
	6. Standard operating procedures for marine logistics and services finalized

#### I. SUPPORT PORT PRODUCTIVITY IMPROVEMENTS

During this quarter, the team has advised the Aden Container Terminal Operations and Planning Departments on terminal efficiency and best practices for yard operations. In Q3, the TL Team organized an operations training seminar on port operations practices followed by a customized Yard Planning Handbook to inform Terminal staff on recommended changes in Yard operations (delivered in April). It held online meetings with ACT staff to discuss the outcomes of the second focus vessel exercise, directly leading to the identification of key improvements in Yard layout and operations.

#### II. JOB DESCRIPTIONS AND RECOMMENDATIONS ON THE TERMINAL MANAGEMENT STRUCTURE (ACT)

ERLP revised the Terminal Management organogram and staff Job Descriptions for YGAPC staff to match the needs of the revised structure and staff responsibilities at ACT and delivered a related set of Job descriptions on May 25.

The commercial and operational success of the ACT relies on a combination of factors, primarily the quality and efforts of the people involved. The range of staff at ACT is varied, with people from different nations, backgrounds, and skill-sets, from the Terminal Manager to Port Operatives. To enable reliable and accurate recruitment, a clear and concise definition of the job role and skills required is vital.

This ACT Job descriptions report resulted in 5 main recommendations to improve the current organizational chart. These included the project, insurance management, technical, administration, planning, and operations departments.

### III. SECOND FOCUS VESSEL EXERCISE

Following the first focus vessel exercise on a selected vessel, CALLIOPE voyage 2103, between March 05 and March 16, 2021, a second focus vessel exercise was conducted at ACT on a selected vessel, TSS SHAMS voyage 2108, between June 18 and June 21, 2021. The selection of TSS Shams was based on her arrival date at the ACT and the multiple numbers of lines/agents for which she was carrying containers. With 1176 containers for discharge and 1855 to be loaded, the planned total moves were 3031. This vessel is a feeder, serving ten shipping lines on this voyage.

Full Export containers for the same shipping line and with the same destination were loaded from multiple yard locations and multiple stacks, making the operation more complicated. Similarly, empty containers for all shipping lines also presented challenges, as they were loaded from multiple yard locations and stacks.

ACT is currently a gateway terminal handling import and export containers, with the main exports by volume being empty containers, comprising 94.5% of total exports. However, while empty export containers utilize almost half of the terminal ground slots, they command the least return in handling and storage fees. Strategies needed to be devised to minimize the impact of handling empty containers in terms of the number of operations they require and their handling costs. This with the core aim of reducing operating costs at the terminal and freeing up space for higher revenue-generating containers, mainly full import containers and possible future transshipment business.

This focus vessel exercise resulted in 5 major recommendations to increase the utilization of empty yard stacks and overall terminal yard utilization. The recommendations were that the ACT needs to (i) change the storage charges calculation for empty containers, ii) coordinate with liner agents on empty container selection, iii) employ block stowage of these containers, iv) increase the stacking height, and v) load empties using mainly empty handlers and reach stackers, rather than the RTGs currently being used. The TF team has completed its report on the outcome of the second focus vessel exercise; and will deliver a half-day webinar on the focus vessel findings to ACT management, heads of operations, and key personnel in Operations and Planning departments in Q4.

### IV. MODERNIZATION OF THE TERMINAL OPERATING SYSTEM (TOS)

During Q2 and Q3, the ERLP Team has discussed with Aden Port Management the need to improve productivity and modernize the TOS used at the Terminal and reviewed the questionnaire provided by potential suppliers of a new TOS on the features that the new TOS would need to provide. In June, the Team was able to share with USAID news of a major step forward when the ACT (Aden Port Development Company) announced an agreement with DP World to upgrade its TOS from Zodiac 5.0 to Zodiac 7.1. This is described by DP World as “one of the most advanced and user-friendly systems on the market for ports and terminal management.” The Chairman of the Port of Aden stated that he looks forward to achieving high productivity rates while managing the terminal more efficiently.

The Team provided USAID with indicative text describing the potential advantages of the TOS upgrade in terms of port efficiency and the reduction in demurrage times, such that senior personnel who provide support for the ERLP could be informed accordingly.

It is important to note that further improvements are needed to secure the full range of benefits that the new TOS can offer, including a fully functioning WiFi system in the container yard and the provision of Vehicle Mounted Terminals (VMTs) for the moving equipment. The Team continues to work with Port Management to support its work in finding practical solutions for these issues.

#### **V. SUPPORT THE PROJECT IMPLEMENTATION UNIT (PIU) IN IMPROVING PORT INFRASTRUCTURE**

The VTMS for Aden is being built by the supplier and will be installed at the Aden Control Tower when ready. As noted below, the ERLP Team has continued to follow up with Port Management and the UNDP on this work and commented on what will be required to ensure the long-term operational success of the equipment installed (such as preventing damage to the cabling by rats). Part of the package to be provided by the supplier is training in operation and maintenance, but the port is concerned that staff responsible for VTMS operations may not have the initial skills to allow them to fully understand the more advanced training. The Team has proposed a solution to this problem that would result in an expert from the region giving basic VTS Operator training before the supplier delivers his training program.

The PIU has also been concerned about the condition and capacity of the fendering available at the Ma'alla Terminal. As noted elsewhere in this report, much larger vessels are being berthed at the Terminal, and the original fenders were not designed for the impact loads that these vessels can put on the quay wall when berthing. The WFP has provided like-for-like replacement fenders for the Terminal. However, these are only half the length of the original fenders, and the port is working on alternative methods of installing these.

In Q3, the ERLP Team has identified a more robust fendering system that could be used at Ma'alla. The team prepared a four-page Project Outline proposing that this type of fendering should be installed at Berth 4 and used for the largest vessels; in a manner that would help to validate the type of fender selected and determine if any changes would be needed with fenders for the other berths. The Team will work with the PIU and fendering specialists in Q4 to identify the most appropriate and cost-effective type, design, and dimensions offenders to install at Berth 4 in order to protect the berth and the ships using it.

A further issue raised in the Damage Assessment produced by the Port of Rotterdam is the condition of the marine slipway serving the Technical Department of the Port. The Team has been communicating with the PIU on measures needed to repair and possibly upgrade the slipway to provide the port with greater ship repair capacity. This, in turn, could allow it to work on larger tugs that the port anticipates will likely be required in the future.

#### **VI. ENHANCE MARINE SERVICES AND LOGISTICS**

The provision of efficient marine services by marine craft and pilots to get ships to and from their berths is critical to the effective use of available berths. ERLP has continued to follow up with the Port Management and the UNDP on the installation of the VTMS, where UNDP has carried out an inspection of the Aden Port Control Tower in preparation for the installation of the new equipment. The Team commented on the work needed to ensure the long-term operational success of this equipment.

The Team has also discussed in detail the training to be provided to VTS operators by the equipment suppliers. ERLP then made recommendations on actions that can be taken to ensure that staff working in the Control Tower gain the skills needed to become competent in their work, in addition to the training to be provided by the suppliers.

During this quarter, the ERLP TF team has developed Standard Operating Procedures (SOPs) for the Port of Aden as part of the Marine Logistics SOPs package. The first SOP covers Pilotage, Towing and Mooring, and sets out the requirements for handling a ship coming to the port. Among these are keeping navigational data updated, port passage planning, preparing the pilotage plan, pilot transfer, cooperating with the ship's Bridge Team, communications, working with tugs, dealing with malfunctions on the ship, and managing emergencies.

The second SOP, specific to pilot boats, skippers, and crew, sets out requirements for handling a pilot boat under the range of scenarios expected in harbor waters. The third SOP, specific to harbor towing operations, sets out requirements for handling the tugs that provide ships with towing services under the range of scenarios expected in harbors.

The SOPs will be presented to Port Management for internal adoption and will support training for relevant staff at the port.

In Q3, the Team provided support for the Port of Mukalla in identifying a potential second-hand tug to support port operations at Mukalla. The need for a 'new' tug was identified in the Rotterdam Damage Assessment Report. Mukalla is considering the acquisition of this tug at present.

## VII. DEVELOP A PORT COMMUNITY SYSTEM (PCS) AND WEBSITE

As noted in Q2, the Port decided that its priority at present is to establish a Maritime Single Window (MSW) to implement FAL Convention requirements in cooperation with the YCA. Accordingly, the ERLP Team drafted and refined, with port management, materials needed to complete and submit an Expression of Interest (EOI) to seek funding from the Port of Singapore's Single Window for the Facilitation of Trade (SWiFT) initiative. Singapore has in operation a world-class MSW to facilitate the arrival, stay, and departure of ships and exchange documents electronically, in compliance with the latest requirements of the IMO FAL Convention.

Aden hopes to be selected as a port in a 'pilot country' to receive this support to develop its port Maritime Single Window (MSW). The EOI response includes important information on cooperation with Customs and other port stakeholders with which the project is closely involved. The EOI was submitted, and IMO and Singapore will assess the bid. The Team has continued to carry out research on the implementation of MSWs in other countries and will continue to support the Port toward establishing an MSW.

Aden continues to work on the development of Phase II of the Port Web Site. In Q3, the Team has been communicating with the UKHO to clarify what version of navigation charts can be provided to Aden for use in showing data on ships at the anchorage and at the berths. UKHO will provide a license for the use of copyrighted vector charts to Aden, free of charge, while the Team has identified a commercial chart supplier who will be able to provide the required software for the charts needed for the Web Site.



## VIII. PROMOTE THE ELIMINATION OF ROAD TRANSPORT MONOPOLY

During Q3, ERLP continued to track land transport logistics in Yemen, confirming that drivers of private trucks collecting and delivering containers from/to the ACT and cargoes at Ma'alla, and that are working under the umbrella of the transport union, are informed by mobile phone on the times that they should report to the terminal gates to collect containers/cargoes or deliver containers. They then collect the required documentation relating to the container/cargo from the clearing agent as authorization to collect the load allocated to them. Charges are applied in accordance with the current tariff. As reported in Q2, non-union trucks carry a significant proportion of the major cargoes unloaded at Aden Ma'alla Terminal, such as bulk cement, clinker, and coal, to storage yards in the greater Aden area or nearby industrial plants. Containers from the ACT are handled by union trucks, with many of these unstuffed in the Aden area so that the containers can be returned to the terminal quickly to reduce demurrage costs. The cargoes can then be delivered to end-users by non-union trucks, as the traders decide.

Modern Volvo trucks are now widely available for long-distance journeys from Aden, with 'older' trucks handling the shorter trips. It currently takes 16-17 hours to make the journey from Aden to Sana'a, spread over two days. Trucks often agree to travel together to help each other in case they encounter problems on the route.

A significant example of the importance of efficient land transport to removing cargo from the port was given in June by the bulk carrier 'Diligent,' carrying 44,400 MT of rebar steel. The rate of discharge by direct delivery to trucks was determined by the number of trucks available each day. She carried 44,000 MT of rebar steel and discharged in 11 days at rates of up to 5,200 MT/day, over four times higher than the target set by the port for rebar steel in 2007. High discharge rates were achieved thanks to the efficient use of trucks removing steel bundles weighing 1.8 MT each from the terminal to storage yards in the Aden area. Apart from a reduced number on a Friday, the number of steel bundles taken from the Terminal by truck ranged from 2,154 on the first day to 2,820 bundles on Day 3, at an average rate of 2,350 bundles/day, showing high consistency.

As noted below, the ERLP participated in a closed-door roundtable, hosted by ACAPS and other international agencies, attended by USAID, UNDP, and other agencies, on methods of reducing the costs of food to Yemeni consumers and provided a detailed briefing table on food transport costs in Yemen. The project experts also provided extensive commentary on the breakdown of the cost of transport to end-users, with suggestions on how any future cost analysis could be improved.

In summary, a high proportion of the Aden Ma'alla cargoes are handled by non-union trucks, while a good percentage of the cargoes taken from the port to warehouses and storage yards in the Aden area by union trucks are then reloaded to non-union trucks for delivery to end-users, as decided by the traders. At the ACT, modern trucks remove containers from/deliver to the terminal, directed by a telephone scheduling system organized through the union. The Port is unwilling to disrupt this system because of reliability, safety, and security issues, plus the risk that older trucks might break down on the two-lane road between the terminal and customs inspection area and disrupt the flow of containers to and from the ACT. Additionally, many of the full containers cleared through customs are then unstuffed at yards in the Aden area, and the cargo is loaded onto trucks selected by the traders so that the containers can be returned quickly to the ACT to reduce demurrage charges on them. High-quality

trucks are needed to carry heavy loads to Sana'a and other highland destinations, and there has not been any indication from the private sector of any current complaints concerning the current system.

ERLP prepared an aide-mémoire to inform a roundtable discussion with the Ministry of Transport, Port of Aden, Land Transport Union, and other key players on trucking services. The roundtable will be held in Q4 when key participants are available and will consider whether the primary users and the Ministry of Transport can advocate for the 15-20 percent differential in tariff rates between the union and non-union trucks to be narrowed.

#### **IX. BUILD THE CAPABILITIES AND CAPACITY OF THE MARITIME TRAINING CENTER**

Staff development continues to be critically important to Yemeni ports. During this quarter, the ERLP team has helped an Assistant Harbour Master at Aden port to submit an application for a Master's program to the IMO Maritime Law center, where he intends to specialize in arbitration in cargo disputes. The application is being considered by potential donors at present.

During Q3, The TF Team further refined the training materials that form part of the support being provided for the Maritime Training Center. The first module covers pilotage and consists of an extensive series of PowerPoint slides supported by handout notes for the lecturer. Modules 2, 3, and 4 cover the safe handling of pilot boats, tugs, and mooring boats. The materials are compatible with the SOPs developed for the Marine Department and are designed to increase the competence of departmental staff.

#### **X. BUILD THE CAPABILITIES AND CAPACITY OF THE MARITIME TRAINING CENTER**

Staff development is critically important to Yemeni ports. During this quarter, the Maritime Training Center (MTC) has provided training for VTS staff and Yemen Coastguard officers, arranged through the UN. It has also provided training in Personal Safety for marine craft officers. VTS training was provided for staff from Nishtun, Mukalla, and Aden to extend the impact of the MTC work to other Gulf of Aden ports. Pilot training and revalidation of Certificates of Competency for port pilots and harbor masters continues through the Arab Maritime Academy in Alexandria. At the instigation of the Assistant Harbor Master, the new ship simulator at the Academy has installed an electronic model of the Port of Aden and its approaches to provide specific training courses for Aden pilots.

During this quarter, the ERLP TF team has developed three training modules for pilot boat skippers, tug masters, and mooring boat operators, covering safe operating procedures. These provide PowerPoint presentations and text for use by MTC trainers to deliver courses to Marine Operations personnel.

### **I.3.3 CROSS-CUTTING**

#### **QUARTERLY WORK ACTIVITIES AND DELIVERABLES**

The Cross-Cutting component of the ERLP project continued to research and address the COVID-19 impact. In addition, ERLP assisted in capturing and disseminating trade statistics, supporting international coordination and cooperation, and preparing and circulating monthly Trade Access Reports.

**Table 24 – Q3 Cross-Cutting Activities and Deliverables**

ACTIVITIES	DELIVERABLES
Facilitate International Coordination and Cooperation	<ol style="list-style-type: none"> <li>1. Dialogue with international donors on topical port issues held</li> <li>2. Customs Revenue Report developed</li> <li>3. Baseline Survey of Trading Costs and Dwell Time launched</li> <li>4. Trade Access Reports issued on a monthly basis</li> </ol>
Assist in Capturing and Disseminating Trade Statistics	
Report on Progress in Collecting Customs Duties and Taxes	

**COVID-19 IMPACT**

COVID-19 continues to severely impact ports and shipping around the world in 2021, with many major ports adjusting their working practices to deal with the virus, suffering from staff shortages and lack of land transport to move cargoes to and from the ports. ERLP monitors daily updates from the Gulf Agency Company (GAC) on changes in regulations and working practices across world ports to see what the Ports in Yemen can usefully learn from these developments. The daily reports on ships at the anchorage provided by the Assistant Harbor Master at Aden continue to include details of ships that the Health Officials have visited and cleared to berth. Anchorage delays are no longer connected with delays due to COVID-19, and ships can, at present, berth ‘on arrival.’ Five of the 47 ships berthing at Aden in June 2021 berthed on the day that they arrived at the anchorage. The Port remains aware of the risks that COVID-19 presents to the port staff, and ships are required to take appropriate steps to prevent the spread of the virus to port personnel.

In Q2, the Assistant Harbor Master confirmed that the Port requires the temperatures of all crew members to be checked when ships arrive and the ship’s accommodation sanitized. This requirement remains in place.

**I. ASSIST IN CAPTURING AND DISSEMINATING TRADE STATISTICS**

**Customs Revenue Report**

ERLP/Fiscal and TF experts compiled a statistical report on customs revenues for January to March 2021, disaggregated by type of tax/duty and entry point. The customs revenue data will help ERLP effectively monitor customs revenues, track collections, and further contribute to improved revenue forecasting and budget planning (in close coordination with the ERLP/Fiscal Team).

**Baseline Survey of Trading Costs and Dwell Time**

During the previous quarter, ERLP completed the process of issuing Requests for Proposals and selected Moore Yemen company to conduct a trade survey for establishing a baseline for measuring progress related to the following:

1. Average import cost at selected border crossings (Aden Port, Mukalla Port, Wadiya BCP, and Shahan BCP)
2. Average Export cost at selected border crossings (Aden Port, Mukalla Port, Wadiya BCP, and Shahan BCP)
3. Average dwell time for cargo passing through selected border crossings (Aden Port, Mukalla Port, Wadiya BCP, and Shahan BCP). The dwell time is defined here as the time frame from the arrival of cargo to the Port or BCP to its departure.

This quarter, the ERLP/Trade Facilitation (TF) team has worked with Moore Yemen to develop detailed survey instruments specific to Yemen. The team also helped train enumerators in completing the forms, facilitated port entry arrangements, and provided comprehensive contact information for YCA officials and leading customs brokerages. Following the development of trade time and cost survey tools, the TF team launched the fieldwork for collecting data from the five major ports on June 26, and this will continue for two weeks until July 8. The surveys will provide sound information regarding key trade barriers and bottlenecks at major trade gateways, including two terminals in the Port of Aden, the Port of Mukalla, and the Shahen and Wadiya border crossings.

## II. INTERNATIONAL COORDINATION AND COOPERATION

During this quarter, ERLP continued to coordinate with international development organizations on issues related to relevant ERLP trade facilitation activities. A coordination meeting was held on June 6 by the OECD/USAID and attended by TF team members, who demonstrated the support provided by ERLP for enhancing public-private dialogue, strengthening border agency cooperation, and institutionalizing national trade facilitation efforts through intensive support and guidance to the NTFC. The latter provides a crucial public-private platform for domestic cooperation and implementation of the WTO TFA. ERLP staff members further discussed trade statistics collation/analysis activities, as well the work being done by the project to support Yemeni importers and exporters and enhancements to national infrastructure that supports trade.

During this quarter, the TF Team has continued to work closely with key figures in Aden's Port Management, with shipping agencies and major traders, to maintain awareness of developments in the ports and in shipping operations. Relationships continue to be maintained with the UNDP, the IMO, the FCDO, UKHO, PERSGA, Aid agencies, and the UKMTO. The TF Team has continued the good working relationship established in the last quarter with both the FCDO and ACAPS, making weekly contact with ACAPS to exchange information on ships and cargoes and producing an agreed set of monthly cargo figures. The Team uses the UNVIM data and daily reports from Aden Harbor Control on ships at the anchorage and alongside to validate Agency data provided by WSS; in cases where cargo figures or details are in doubt.

In Q3, the ERLP Team continued to engage effectively with UNDP on the final version of the Damage Assessment Report on the ports of Aden and Mukalla, prepared by the Port of Rotterdam. In May, the Team participated in a closed-door roundtable, hosted by ACAPS and other international agencies and attended by USAID, UNDP, and other agencies, on methods of reducing the costs of food to Yemeni consumers. The Team prepared a detailed briefing table on transport costs in Yemen, giving food transport costs and extensive commentary on the breakdown of the cost of transport by sea and land to end users, along with suggestions on how any future cost analysis could be improved.

## III. TRADE ACCESS UPDATES

The ERLP TF Team prepared and submitted Trade Access Reports in April, May, and June to update data on imports of fuel, food, and other cargoes through seaports and across land borders. This quarter has been affected by Ramadan and Eid, with lower dry cargo volumes because of reduced demand for imports following the surge in Q2 and reduced working hours in the cargo terminals.

The Team continued to respond to concerns raised by USAID and the FCDO relating to the impact of restrictions on fuel imports through Hudaydah this quarter. The highest-ever fuel imports were

recorded through Aden in Q3, with as many as nine fuel tankers at Aden anchorage waiting to discharge.

Food imports have also been an issue of concern to USAID. The team prepared a note comparing food imports over the months before Ramadan and Eid 2021 with imports recorded over the months before Ramadan/Eid periods in previous years. The results indicated, in fact, that over these critical periods in 2021, food imports have been higher than any previously recorded.

Food imports through Yemen's seaports increased from 580,000 MT/month in Q1 to 614,000 MT/month in Q2. In Q3, over Ramadan/Eid, they fell to 563,500 MT/month. However, the 12-month average food import tonnage at the end of June 2021 is 647,000 MT/month, well above the 'food import minimum' figure currently used by international aid agencies of 565,000 MT/month. Land border food imports raise the 12-month average food import figure to 681,000 MT/month -- 116,000 MT/month above the 'minimum.'

In Q2, very high container volumes were recorded through the ACT, averaging 46,473 TEUs/month, or 31% higher than the same period in 2020. At the same time, anchorage delays for container ships in Q2 dropped from an average of 18.4 days in December 2020 to 3.4 days in March 2021. Following the surge of containerized goods into Yemen in Q2, the volume of containers declined in Q3. The average throughput from January to June is now 38,014 TEUs, making 2021 the second-highest year (to date) since the record volume recorded in 2019. Anchorage delays for container ships in Q3 averaged 1.4 days.

The number of exported TEUs in Q3 exceeded the number of imported TEUs by over 3,900 TEUs. This has helped to reduce congestion in the ACT container yard and to improve yard efficiency.

The Ma'alla Terminal has also performed well -- although with lower import tonnages, as demand for construction materials fell somewhat over Ramadan and Eid. Average throughput handled for the first six months of 2021 has been at the rate of 9,150 MT/day, consisting mainly of clinker, steel, timber, cement, food, general cargo, and imported vehicles. The Ma'alla Terminal berthed the largest ever ship allowed to dock at Ma'alla, 50,363 tons deadweight (DWT). She carried 44,000 MT of rebar steel and discharged in 11 days at rates of up to 5,200 MT/day, over four times higher than the target set by the port for rebar steel in 2007. High discharge rates were achieved thanks to the efficient use of trucks to remove steel bundles from the terminal to storage yards in the Aden area.

Moreover, the private Hayel Saeed Anam terminal in Aden, the Aden Gulf Terminal (AGT), continues to make an important contribution to total port capacity at Aden. The company has imported bulk wheat, palm oil, steel, and coal (a consignment of 53,800 MT) during Q3. The company continues to charter vessels in the 50,000 to 63,000 TDW range, discharging around 50% of each ship's bulk wheat cargoes at Aden before completing discharge at Hudaydah. Four such ships were discharged at Aden in June alone before they proceeded to Hudaydah, which has reduced the cost of shipping wheat to these two ports significantly.

To a lesser extent, a similar approach was used by another trader/shipping agent to reduce ship charter costs for calls at Red Sea ports. One vessel of 56,735 tons DWT discharged 21,500 MT of wheat at Salif in June before proceeding to Hudaydah to discharge the balance of 30,700 MT.

Container traffic at Mukalla reported by the Yemen Arabian Sea Ports Corporation (YASPC) website has increased rapidly with ERLP assistance, from 28,900 TEUs in 2018 to 42,750 TEUs in 2019 (a 148 percent increase) and to 56,700 TEUs in 2020 (an increase of 133 percent). This website has not yet been updated to provide data for 2021, but the number of container ships calling Mukalla is high. At the same time, delays to these vessels at the anchorage are also high, averaging around ten days in Q3; due to a shortage of quay and working/storage space at the port.

Mukalla imports bulk wheat cargoes approximately every three months, with one cargo of 11,000 MT delivered in Q3. Important tonnages of other foodstuffs and general cargo/building materials arrive by dhow. Dhow import tonnages are given on the YRSPC website and recorded in the ERLP Trade Reports.

Restrictions on fuel imports permitted into Hudaydah continue to impact the port and availability of fuel supplies in 'the north.' In this regard, 454,000 MT were imported through Hudaydah in Q1, falling to 89,500 MT in Q2 and improving marginally to 143,500 MT in Q3. In contrast, Aden imported 985,000 MT of fuel in Q3 and Mukalla 340,000 MT to compensate for the low tonnage at Hudayah.

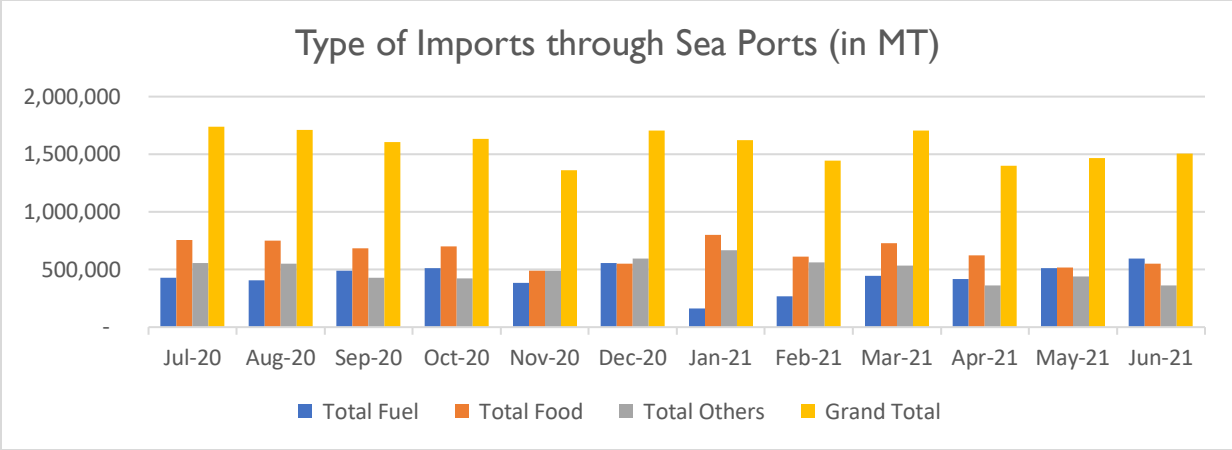
Total fuel imports in June through all ports reached 595,500 MT. In June, the 12-month average reached 431,500 MT -- a sharp increase of 44,500 MT/month over the average recorded between April 2020 and March 2021 of 387,000 MT. The Hudaydah restrictions have resulted in fuel shortages in the north and high levels of black market-related fuel sale activities. Shortages are largely being covered by fuel moved by trucks from the Gulf of Aden entry points (Aden, Qana'a, Mukalla, Nishtun) to the north. National production at Marib, of an estimated 120,000 MT/month, is a further important contribution to diesel and LPG supplies for the country.

Qana'a uses ship-to-ship transfer of fuel from larger ships to smaller tankers that can get close to the shore to discharge. Unofficial data on import tonnages indicate that around 10,000 MT/month were imported in Q2 and Q3. At Nishtun, a high level of tanker activity has been seen on AIS sites, with figures for fuel imports given on the YASPC website up to the end of 2020. So far, 2021 figures have been estimated and will be revised when the website is updated.

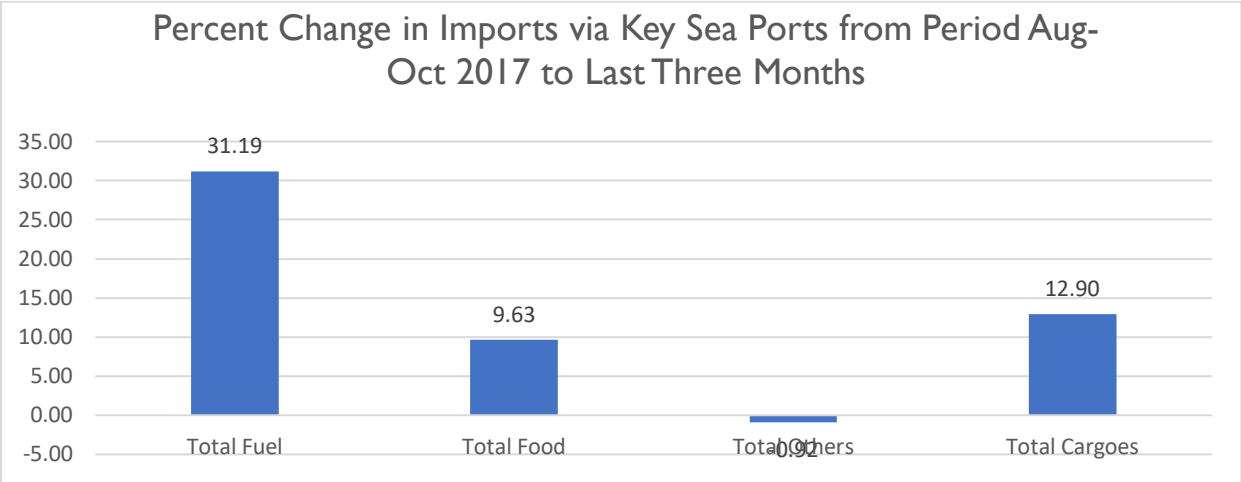
Including the latest available figures for Mukalla and Nishtun, the monthly report for June records that imports via seaports have averaged 1,575,500 MT/month for the 12 months from July 2020 to June 2021, compared with 1,538,000 MT/month at the end of Q2. Aden, Mukalla, and Nishtun in the Gulf of Aden have, between them, been responsible for 69.74% of total seaport imports in 2020, while Salif and Hudaydah have handled 30.26% of Yemen's total port cargo.

TF experts have continued to monitor and report on crude oil exports through the terminals at Rudum and Ash Shihr. Rudum exported 1.8 million barrels in Q3 and Ash Shihr 4.0 million barrels.

Overall import figures for the last 12 months, given in the chart below, show the drop in total imports in April/May over the Ramadan/Eid period after the strong figures in March. This is followed by a rise in May/June, mainly due to strong fuel imports at Aden. Overall this quarter has seen only modest total import tonnages of food and non-food dry cargo, with fuel imports rising strongly to June.



The figure below gives the three-month average for various cargo imports, compared with the three months before Hudaydah was ‘closed’ in November 2017. This indicates that the tonnage of fuel imported through seaports in Q3 - despite the restrictions at Hudaydah - was 31% higher this quarter compared with the 2017 data, with food 10% higher and other cargoes 1% lower. The overall level of imports was 13% higher than in August to October 2017.



ERLP records the rolling average tonnages for three-month periods from January 2018 to the latest quarter in its monthly Trade Reports for all land and sea entry points. This gives us a ‘long view’ of changes in cargo imports into Yemen, with an upward trend for total cargo tonnages.

**NEXT STEPS**

During the next quarter (July-August 2021), ERLP will carry out the following key activities:

1. Develop SOP for the NTFC Secretariat.
2. Finalize and promote the adoption of best practice-compliant regulations on PCA.
3. Facilitate and coordinate ratification of the MOU on border agency cooperation.
4. Promote dialogue between YCA and KSA counterparts to harmonize cross-border cooperation, including alignment of hours of operations at Wadiya.
5. Develop a proposal for joint clearance and single/joint border post, including sharing of facilities and equipment at Wadiya Border Crossing Point.

6. Finalize report on best practices and lessons learned from three regional countries on exporting.
7. Review current operational practices at the Ma'alla terminal to identify where upgrading would be useful to achieve a faster turnaround of ships and reduce dwell times. Evaluate the final Damage Assessment Report produced by the UNDP/Port of Rotterdam on the ports of Aden and Mukalla, and discuss its findings with USAID.
8. Continue support to Port Management as necessary related to VTMS, TOS, Maritime Single Window, and port website.
9. Operationalize the Trade Information and Services Portal under the MOIT.
10. Continue to provide day-to-day advice to YCA and Port of Aden management and help collect and produce monthly trade statistics and quarterly customs revenue reports.
11. Complete survey for determining a baseline for trading costs and dwell time at key trading points.

In addition, the project anticipates continuing to strengthen institutional capacity for advancing the implementation of trade facilitation measures through the following key activities:

- Training workshop to raise awareness of the private sector representatives on Advance Rulings, based on the WCO Technical Guidelines on Advance Rulings for Classification, Origin, and Valuation.
- Training workshop to raise awareness of the private sector representatives on Administrative Appeals and Review
- Awareness event for private sector representatives working in Mukalla to encourage more applicants for AEO status—particularly SMEs and importers of essential food products and medical supplies—in a manner that helps counter the impact of COVID-19.
- Awareness seminar on exports guidelines for perishable products in foreign markets.
- Training event on customs valuation.
- Two training events for the Maritime Training Center.
- A Training seminar to stevedores at Ma'alla Port.
- A Training seminar on SOP for maritime service to port staff.



## COMPONENT 2: IMPROVED MICROECONOMIC CONDITIONS

### 2.1 STRENGTHENED SME CAPACITY

ERLP supports small and medium-sized businesses (SMEs) in key growth sectors to enhance productivity, create jobs, help secure financing, and match qualified job seekers with new job opportunities. The project works with SMEs to identify and sustainably address constraints that impede their competitiveness, growth, and employment generation capacity. While some constraints are associated with the broader enabling environment, most are specific to each firm. In this regard, ERLP provides demand-driven technical assistance tailored to the specific needs of selected SMEs in key growth industries.

SMEs are selected through a rigorous scoping and selection process, and technical assistance is delivered through goal-focused partnership agreements (PAs) developed and executed by the ERLP team. PAs outline each partner firm's unique growth goals, productivity enhancement parameters, and corresponding technical assistance and training support areas. Information obtained is also used to develop performance measures regarding incremental sales and new FTE jobs generated.

#### 2.1.1 SUPPORT TO SMALL AND MEDIUM ENTERPRISES (SMES)

##### BACKGROUND

ERLP continues to impactfully address Yemen's massive youth unemployment by working collaboratively with key private sector actors to identify sustainable employment generation and economic growth opportunities at the enterprise and value chain levels. Selected high-potential SMEs continue to serve as engines of growth, playing a catalytic role in job creation, economic recovery, and community revitalization.

ERLP's proven employment generation approach, appropriately adapted to the Yemeni institutional context, provides customized, tightly targeted business advisory services to select private-sector firms. The technical assistance services provided enhance the competitiveness of partner SMEs and expand their access to finance and investment, thereby enabling them to grow and generate new employment opportunities, particularly focusing on women and out-of-work youth.

To date, ERLP has effectively partnered with over 100 private companies. The project's buyer-led approach has significantly enhanced the competitiveness of private firms across several key sectors, including agribusiness, information and communications technology, private healthcare, and private education.

##### QUARTERLY WORK ACTIVITIES AND DELIVERABLES

During Q3, the ERLP SME component supported core SME workplan activities and deliverables, reviewed and selected SMEs, provided tightly targeted technical assistance to SMEs, conducted key SME interventions, monitored and tracked sales increases for partner SMEs, and generated additional FTE jobs. ERLP experts focused on achieving three main objectives: (i) delivering technical assistance to partner SMEs, (ii) monitoring the sales of ERLP partner firms, and (iii) generating FTE jobs.

**Table 25: Support to SMEs Activities and Deliverables**

ACTIVITY	DELIVERABLES
Follow up ongoing technical assistance for selected SMEs and initiate the technical assistance for the 3rd group of firms.	<ol style="list-style-type: none"> <li>30 additional qualified SMEs prospected and reviewed.</li> <li>7 new SMEs receive technical assistance under the approved PAs.</li> <li>240 new jobs generated (350 cumulative jobs generated)</li> <li>Increase in sales reported in US\$</li> </ol>
Monitor sales increases for the second batch of partner SMEs and report new sales agreements sealed following the USG support.	
Monitor/track sales increases for the third batch of partner SMEs and report new sales agreements sealed following the USG support.	

**I. SMES REVIEWED AND SELECTED**

In Q3, ERLP implemented ongoing technical assistance and training support to previously selected SMEs in Aden, Mukalla, and Al Wadi. The project also identified and screened an additional 30 prospective firms. Of these, seven were selected, and new PAs were developed and approved. Additionally, the team initiated the selection process for companies targeted to receive project assistance and participate in ERLP-sponsored job fairs in Q4.

**II. SELECTED SMES RECEIVE TECHNICAL ASSISTANCE UNDER APPROVED PARTNERSHIP AGREEMENTS**

This quarter, ERLP developed and received USAID approval for seven new PAs with selected SMEs. Of these, five will receive technical assistance and two pre-employment training. The newly approved PAs will generate an estimated 119 FTE jobs and US\$ 1 million in incremental sales. The table below provides a list of companies and sectors that received ERLP technical assistance this quarter, their location, and the precise numbers of jobs generated.

In total, 33 PAs approved in Q1 and Q2 were completed in Q3 ERLP SME and MEL experts worked together to track their impact on business growth, competitiveness enhancement, incremental sales, and employment generation. The table below summarizes ongoing job creation (JC) and workforce development (WFD) support interventions, followed by illustrative examples of interventions and their impact.

**Table 26: Q3 Ongoing SME Support Interventions**

PARTNERSHIP AGREEMENT	SECTOR	LOCATION	COMPONENT	N° JOBS
<b>SMES RECEIVING TA AND CREATING JOBS</b>				
Zelal Factory for Mineral Water	Manufacturing	Aden	JC/WFD	21
Aden Stores Company	Fisheries	Aden	JC	10
Bravo Hyper	Retail	Aden	JC	13
Afaq Gate for Medicine	Healthcare	Aden	JC	11

PARTNERSHIP AGREEMENT	SECTOR	LOCATION	COMPONENT	N° JOBS
Al Rawda Water Factory	Manufacturing	Aden	JC	15
<b>Total number of jobs to be created</b>				<b>70</b>
<b>SMES RECEIVING PRE-EMPLOYMENT TRAINING AND MATCHING JOBS</b>				
National Company for Leather Industries	Manufacturing	Aden	WFD	19
Shamsan Mount Security Services	Services	Aden	JC/WFD	30
<b>Total number of jobs to be matched</b>				<b>49</b>

### **Mawada for Food Industries: Quality Assurance in the Agribusiness Sector**

Mawada for Food Industries (“Al Mawada”) is among 87 companies selected for assistance. Founded in 2016 in Hadramout Valley, Al Mawada employs 95 people and manufactures and distributes mineral water, juices, yogurt, and condiments. Al Mawada created a plan to meet the increasing demand for its products by enhancing production capacity, particularly for new dairy products. An ERLP assessment, however, found that the company was unable to meet food quality assurance standards, particularly for pasteurized dairy products.

Specifically, the assessment found that, despite having obtained HACCP/GMP and ISO 22000 quality assurance certifications, the company lacked the capacity to conduct microbiological testing in its laboratory—an essential capability for identifying the presence of pathogens, bacteria, yeast, and mold. Without the testing, they could not sell some of the new dairy products.

To address this critical finding, ERLP identified a regional expert to provide technical support to strengthen in-house laboratory operations and enhance food quality assurance standards. The intervention also focused on strengthening Al Mawada’s production capacity, specifically through improved operations in its laboratory facility, which enabled the Factory to increase its sales and maintain standards for high-quality products.

A recent visit to Al Mawada revealed that the successful adaptation of the manufacturing process was in place, with significantly enhanced testing being conducted in-house. As a direct result of ERLP technical assistance, a 20 percent increase in sales was reported, reflecting increased competitiveness in the local market and export readiness. The increased sales generated 15 new sustainable jobs.

### **Zelal Mineral Water Factory: Financial and HR Management**

Zelal Mineral Water Factory, founded in 2020 in Lahij, is one of Yemen’s largest mineral water bottlers. It sells its products through wholesalers and distribution centers, primarily in Aden, Lahij, Al Dhale’e, and Taiz. Due to the challenging sanitation situation in Yemen, the demand for safe, high-quality bottled water has soared. In response, Zelal increased production by an additional 70,000 cartons/year and developed a new business growth plan targeting direct sales to retail stores.

However, the sudden increase in manufacturing volume created unexpected challenges that adversely affected the company’s KPIs and growth. The absence of a coherent organizational structure hindered coordination between departments and overburdened management staff, resulting in delivery delays and

decreased productivity. Zelal was unable to overcome these challenges and was forced to put its new growth strategy on hold.

An assessment of the company conducted by ERLP experts revealed deficiencies in financial and HR management. The company lacked organizational policies, fundamental templates/forms, and the formal procedures needed to deal with a larger, more complex range of clients with unique needs and expectations. To correct the deficiencies, ERLP advisors and Zelal’s management team worked collaboratively to upgrade the company’s administrative operations across departments to eliminate inefficiencies and improve service delivery through improved workflow planning and scheduling. The assistance provided led to a \$100,000 increase in sales and generated 19 new full-time positions after six months

### III. INCREASE IN SALES IN USD REPORTED

In collaboration with the MEL team, ERLP SME experts are monitoring the sales increases of partner firms to assess the efficacy of the technical support provided about building firm competitiveness, as measured by increases in sales and employment generation. The following table summarizes the incremental sales of ERLP partner firms through Q3:

**Table 27: ERLP Partner Firm Incremental Sales**

Partnership Agreement	Baseline Q1 Sales 2020 (US\$)	Baseline Q2 Sales 2020 (US\$)	Baseline Q3 Sales 2020 (US\$)	2021 Q1 Sales (After ERLP TA) (US\$)	2021 Q2 Sales (After ERLP TA) (US\$)	2021 Q3 Sales (After ERLP TA) (US\$)
Abu Sufyan Trading Corp	11,893,813	12,241,806	11,608,760	12,084,154	14,280,431	17,010,850
Al - Salam Specialized Clinic	372,892	370,054	405,221	516,050	778,318	811,133
Al- Madar Specialized Clinic	153,263	218,946	214,142	174,301	232,201	274,531
AL Salehi Medical Corporation	80,000	82,000	93,000	108,300	123,000	160,000
Al-Haramain Medical Center	80,628	85,714	87,940	117,115	137,669	N/A
BBSOft	10,350	12,420	14,450	23,300	16,950	17,900
Pure Aden for Water	34,462	33,874	35,079	35,347	42,000	N/A
You4IT	0	0	0	10,000	17,000	24,000
Al-Wahda Factory	87,656	55,887	77,032	101,956	110,198	126,728
Doctors Tower	47,818	32,143	31,658	90,567	85,853	103,402

Partnership Agreement	Baseline Q1 Sales 2020 (US\$)	Baseline Q2 Sales 2020 (US\$)	Baseline Q3 Sales 2020 (US\$)	2021 Q1 Sales (After ERLP TA) (US\$)	2021 Q2 Sales (After ERLP TA) (US\$)	2021 Q3 Sales (After ERLP TA) (US\$)
Gulf Hospital	242,500	255,560	255,560	345,000	351,400	N/A
E-commerce	N/A	1,500	N/A	N/A	2,050	N/A
Al Rawda (number of patients)	N/A	8997	9,374	N/A	10255	N/A
Zelal Factory for Mineral Water	N/A	N/A	N/A	255,033	390,167	501,295
Al Ruwda for Mineral Water	N/A	67,567	71,468	65,217	72,635	78,452

#### IV. FTE JOBS GENERATED AS OF Q3 FY21

During the quarter, the ERLP SME interventions generated 240 FTE jobs for a total of 891 FTE jobs over the first nine months of the project. As of Q3 FY21, ERLP has supported 132 (including 69 start-ups) private sector firms across eight economic sectors (see below diagram). It is currently estimated that at least 1,250 jobs will be generated through ERLP during Year 1 of the project.

**Table 28: Number of FTE jobs verified as of the end of Q3:**

PA/TOR	# SME		Component	FTE Verified
Al-Wahda Factory	1	C-15-Manufacturing	JC	18
Doctors Tower	1	Q-87-Human Health	JC	14
Al - Salam Specialized Clinic	1	Q-87-Human Health	JC	50
Al Hosn Factory for Salt	1	C-10-Manufacturing	JC	5
Al- Madar Specialized Clinic	1	Q-87-Human Health	JC	16
Alruwda Hospital	1	Q-87-Human Health	JC	36
Pure Aden for water	1	C-11-Manufacturing	JC	10
Youth Capacity Building	12	M-70-Professional activities	WFD	13
YOU for Information Technology	1	J-62-Computer Programming	JC	6
Al-Jamaheer M.C	1	Q-87-Human Health	JC	10
Al-Haramain Medical Center	1	Q-87-Human Health	JC	19
Al Arabya Soft	1	J-62-Computer Programming	WFD	26
Abu Sufyan	1	Q-86-Human Health	JC	29

PA/TOR	# SME		Component	FTE Verified
Gulf Hospital	1	Q-87-Human Health	JC	26
BBsoft	1	J-62-Computer Programming	JC	5
Al Salehi	1	Q-87-Human Health	JC	17
Al Naqueeb Hospital	1	Q-87-Human Health	WFD	85
Babel Hospital	1	Q-87-Human Health	WFD	41
King Security & Safety	1	N-80-Security	WFD	24
Al Mawada	1	C-11-Manufacturing	JC	15
E-Commerce	1	J-62-Computer Programming	JC	6
Covid 19 Aden	2	Q-87-Human Health	WFD	112
Covid 19 Taiz	10	Q-87-Human Health	WFD	58
Al Reyada Hospital	1	Q-87-Human Health	WFD	67
Fisheries (fiberglass)	10	C-22-Manufacturing	WFD	7
Fisheries (coastal women)	60	C-10-Manufacturing of food products	WFD	42
TOR Tailoring Workshops	3	C-14-Manufacturing	WFD	25
MAAP Hospital	1	Q-87-Human Health	JC	13
Al Majd School	1	P-85-Education	WFD	14
Zelal Factory for Mineral Water	1	C-11-Manufacturing	JC	19
National Company for Leather Industries	1	C-15-Manufacturing	WFD	19
Aden Stores Company	1	A-03-Fishing and aquaculture	JC	11
Afaq Gate for Medicine	1	E-36- Water Collection, treatment, and supply	JC	10
Bravo Hyper	1	G-45-Wholesale and Retail Trade	JC	18
Al Rawda Water Factory	1	C-11-Manufacturing	JC	5
<b>TOTAL</b>	<b>132</b>			<b>891</b>

## 2.1.2 WORKFORCE DEVELOPMENT

ERLP expands employment opportunities by addressing the critical constraints that limit SME capacity in high potential industries to increase productivity and expand sales, exports, and jobs. The WFD component focuses on building systemic “backward linkages” between SMEs and the education system. This strategy addresses the critical skills gaps identified during the enterprise support process by conducting pre-employment training activities in occupational areas in high demand by employers.

Acting as a catalyst, the WFD interventions support initiatives to expand two-way communication between educational institutions and employers. A critical objective is to narrow the existing gaps between job seeker preparation and employer requirements. This strategic HR assistance track aims to

promote more efficient HRM functionality within firms, strengthen networks between universities and businesses, and optimize the communication between employers and the education/training system.

Finally, it strives to update the methods and tools used by recruiters. The WFD Team seeks to develop and strengthen employer recruitment processes through targeted institutional outreach actions; designed to reinforce recruitment assistance and pre-employment training outcomes. The latter is provided by leveraging a pool of local training providers to fill employer-identified skill gaps for job candidates.

## QUARTERLY WORK ACTIVITIES AND DELIVERABLES

In Q3, ERLP experts achieved all three principal workforce development objectives: (i) providing pre-employment training for SMEs, (ii) building capacity for women, and (iii) supporting market-relevant curriculum development.

ACTIVITY	DELIVERABLES
Conduct pre-employment training with the third group of firms.	1. At least 16 Partnership Agreements and TORs approved and signed assisting SMEs
Prepare a targeted and time-framed action plan and implement skills development interventions with women and youth in Mahra	2. At least 200 women and youth trained in new and/or upgraded skills and obtained sustainable income
Follow up with the implementation of the 2 curricula development interventions in Taiz.	3. 6 curriculum development PA implemented in Hadramout
Follow up with TOT interventions with all curriculum development partnership agreement in Hadramout and Taiz	4. 200 new jobs matched (550 cumulative jobs matched)
Monitor/track the implementation and report the milestones achieved under the third batch of PAs	

### I. CONDUCT PRE-EMPLOYMENT TRAINING ACTIVITIES WITH SELECTED SMES

*New recruits from Al Hawa Garment Factory*

During this past quarter, ERLP delivered pre-employment training to the National Company for Leather Industries. The company is based in Aden and resumed production following improvements in the political climate, and a decline in Chinese imports owing to COVID-19 supply-chain disruptions. However, the company has had difficulty recruiting skilled leatherworkers. There is a considerable shortage of leatherworkers in Yemen owing, in part, to the absence of vocational training in this field.

The project deliberated extensively with management regarding the dearth of qualified leatherworkers as a critical competitiveness constraint that impedes its growth. To succeed, the company desperately needed skilled workers capable of producing high-quality products.

In response, ERLP designed intensive technical support and capacity-building intervention to upskill 19 new workers (11 males and eight females) in leather cutting and sewing. The training included modules on designing, cutting, assembling, and producing high-quality leather garments products such as wallets, bags, and accessories, currently in demand in the domestic markets. As a direct result of ERLP training, the company provided full-time employment to all 19 trainees.

## II. CONDUCT SKILLS DEVELOPMENT INTERVENTIONS FOR COASTAL WOMEN

ERLP also developed a customized intervention for three women-owned garment factories in Mukalla and Seyoun. While all three factories had received new orders from local wholesalers and garment shops, they lacked the qualified staff required to fill them. A highly skilled ERLP trainer helped identify and train 43 new sewists. Each garment factory hired 10 to 12 women to reinforce their production lines and help ensure the on-time production of new orders.

Since then, one of the factories, Al Gad Garment Factory, signed two new agreements, one with a trader in Kenya who ordered 20,000 abayas, another with Hadramout for Flour Silos (one of the largest manufacturers in Hadramout), to become the sole supplier of uniforms for its workers. The value of these two agreements is \$50,000.



## III. IMPLEMENT CURRICULUM DEVELOPMENT INTERVENTION

ERLP conducted strategic curriculum development activities during the reporting period supporting systemic improvements in the quality and market-relevance of curricula in key skill areas among a network of vocational education institutions associated with Seyoun Community College.



*Pre-employment Training in Leather Factory*

Targeted pedagogical focus areas were identified through skill gap-related information received via the project's ongoing work with partner firms. ERLP introduced curricula reforms addressing discrepancies between the current curriculum and private sector workforce demand.



ERLP experts thoroughly analyzed existing curricula and developed new, highly specialized courses responding to the labor market demand in the renewable energy, software programming, and health management subsectors. As a result, new vocational degree programs in these areas will begin in the 2021-22 academic year. To further ensure the initiative's success, ERLP conducted intensive training of trainers sessions in June 2021; in a manner designed to help build the capacity of instructors to deliver the new curricula. Training materials developed by ERLP experts included modern teaching methodologies, course content, and employment outcomes based on labor market demand.

## **NEXT STEPS**

During Q4, ERLP will continue implementing tightly targeted technical assistance and training activities supporting private sector competitiveness and sales/export expansion. These will include:

1. Providing continuous support to private sector enterprises through targeted technical assistance and training.
2. Organizing two invitation-only job fairs in Aden and Mukalla in order to help partner firms identify qualified workforce participants and invite selected job seekers to find a job.
3. Finalizing the curriculum development intervention and validating with the community college of Seyoun the new six curricula that will be officially adopted in September 2021.
4. Continuing to prospect the private sector and conduct assessments of firms eligible for ERLP technical support and training.

## **2.1.3 ACCESS TO FINANCE**

### **BACKGROUND**

The banking sector in Yemen is facing daunting challenges directly associated with the ongoing conflict. Its capital base is being consumed, and risks have multiplied, making the sector's normal financial services costlier or simply inaccessible. The number of functioning bank branches has fallen significantly. Weak credit information, inadequate understanding of SME risk, excessive collateral requirements, and financial products ill-suited to SME needs significantly constrain lending and impede sector growth. The SMEPS 2017 survey found that 73 percent of businesses could not access credit. Moreover, the non-availability of trade finance is another major constraint for importers. In response, ERLP assists partner financial institutions to better serve and meet SME client needs by expanding institutional outreach capacity and providing a wide range of cutting-edge financial services.

This quarter, ERLP continued to work closely with current and new Partner Financial Institutions (PFIs) to scale up SME financing workstreams models, introducing new financial products and outreach strategies. Building on the solid knowledge and know-how gained during the first two quarters, the A2F team focused more on practical job training to build the capacity of the PFI staff, using new approaches and innovative delivery mechanisms. ERLP organized on-site visits for staff from new partners to more advanced PFIs and virtual visits to leading SME-lending institutions in the region to recognize the key aspects of functioning loan appraisal and approval processes and best practices of SMEs lending.

ERLP has rapidly established a strong network of PFIs composed of the country's largest commercial banks, including the International Bank of Yemen (IBY), Yemen Commercial Bank (YCB), El Tadhamon Microfinance, El Amal Bank (AMB), and Al-Ittihad Microfinance Program. Several new partners joined the network this quarter, namely Kuraimi Bank and the Shamil Bank of Yemen and Bahrain. Accordingly, ERLP activities continue to be adapted to reflect each financial institution's unique experience and situation, with tailored deliverables and implementation timelines.

In Q3, ERLP/A2F supported three of the largest commercial banks in Yemen, IBY, YCB, and Shamil Bank of Yemen and Bahrain (SBYB), to scale up their cash-flow-based lending further, address clients further up the supply chain, and establish fully-fledged SME lending functions based on international best practice standards. Moreover, for the first time in Yemen, the project presented and launched factoring products in two banks and leasing finance in the Islamic Ijara mode.

ERLP continued to promote Mobile Financial Services (MFS) and FinTech products, and during Q3, the team assisted partner FIs in adopting advanced financial technologies for lending purposes. This quarter, ERLP worked with Al Amal bank and Yemen Commercial Bank in developing a mobile application to allow factoring clients to apply and upload invoices through their cell phones. ERLP technical support consisting of new and improved MSME lending policies, procedures, and products - combined with greatly improved PFI outreach - has already generated loans to SMEs of over \$10.1 million.

### QUARTERLY WORK ACTIVITIES AND DELIVERABLES

During the reporting period, ERLP experts focused on achieving six main targets: (i) Provide continued technical support to partner FIs to develop their SME loan portfolio; (ii) Facilitate technical assistance to update/optimize best practices of Revolving Credit facilities; (iii) Develop a “Pipeline SME 3” of credit-ready SMEs and facilitate their access to finance; (iv) Finalize the innovative M&C (Monitoring & Control) mechanism and reporting capabilities; (v) Test launching automated processes and products.

**Table 29: Q3 Access to Finance Activities and Deliverables**

ACTIVITY	DELIVERABLE
<ul style="list-style-type: none"> <li>- Provide continued technical support to partner FIs develop their SME loan portfolio</li> <li>- Facilitate technical assistance to update/optimize best practices of Revolving Credit facilities</li> <li>- Develop “Pipeline SME 3” of credit-ready SMEs and facilitate their access to finance</li> <li>- Finalize M&amp;C mechanism as well as reporting capabilities</li> <li>- Test launch automated processes and product(s)</li> <li>- Support three partner FIs to reach market intermediation activities and opening electronic savings/checking accounts to at least 25 percent of their current client base</li> </ul>	<ol style="list-style-type: none"> <li>1. 7 partner FIs are provided with technical/training assistance to build their SME loan portfolio</li> <li>2. 3 partner FIs are provided with technical/training assistance on updated/optimized structuring Revolving Credit facilities delivered</li> <li>3. Potential SMEs screened and selected</li> <li>4. The third pipeline of at least 15 additional credit-ready SMEs developed</li> <li>5. Guidelines and policies developed on the finalized credit product</li> <li>6. Testing the product in a controlled environment completed</li> <li>7. Three partner FIs received support in market intermediation to implement electronic financial transactions and opening savings/checking accounts</li> <li>8. FIs reached financial MSF / FinTech transactions and opening savings/checking accounts to the equivalent of 25 percent of their customer base</li> <li>9. \$2 million in additional lending to SMEs (at least \$700,000 to women-owned firms) achieved.</li> <li>10. 170 SME clients (at least 40 women) benefited from financing received from ERLP partners</li> <li>11. \$700,000 in additional lending to agriculture activities (at least \$170,000 to women-owned firms) achieved</li> <li>12. 170 ERLP-supported agricultural sector chain actors received financing from assisted institutional partners</li> <li>13. One PI introduced MFS/Fintech products to the market and initiates electronic savings/deposit account services</li> </ol>

#### I. PROVIDE CONTINUED TECHNICAL SUPPORT TO PARTNER FINANCIAL INSTITUTIONS TO DEVELOP THEIR SME LOAN PORTFOLIOS

ERLP continues to support partner FIs with capacity building and institutional enhancement. Targeted activities address corporate finance culture, traditional loan products, and shortcomings in loan analysis and approval processes, while PFI staff are trained on implementing SME lending best practices and

techniques. A2F work during this quarter focused intensively on the three biggest partners, including IBY, YCB, and SBYB.

During the reported period, the project conducted comprehensive on-the-job training with IBY, YCB, and Al Amal banks on the ERLP Credit Application CAP tool, covering both financial and non-financial analysis issues. This entailed hands-on training with the staff from the SME Unit in the partner FIs, with a real-life demonstration for five SME applicants within each FI.

Following the success of the pilot phase of the CAP model, senior management in the three banks circulated a decree to use this instrument on all credit transactions.

Building on the comprehensive training of invoice finance to Yemen Commercial Bank and Al Amal Bank, ERLP organized a virtual visit in Q3 to EFG-Herms Egypt to observe its factoring department operations. EFG-Herms Egypt is one of the leading financial institutions in the MENA region and is a regional factoring pioneer. Its proactive engagement with its Egyptian SMEs stimulated considerable discussion and learning regarding best practices in managing client invoices, assessing invoice quality, conducting aged analysis of client accounts, and managing workflow. The participants were highly motivated after the exposure visit and gained important practical skills.

The ERLP/A2F team also organized a four-day visit to Azal MF to expose IBY staff to active SME lending operations, including proper client selection and key aspects of functioning loan appraisal and approval processes. IBY staff were also able to job-shadow Azal loan officers on regular field visits to see firsthand how Azal monitors SME client activities.



**Table 30: Training events conducted during Q3**

PFI	TRAINING	DURATION	ATTENDEES	FEMALE	TRAINEE DAYS
<b>AMB</b>	CAP Model	27,28/1/2021	20	5	40
<b>TM</b>	CAP Model	3,4/2/2021	10	2	20
<b>YCB</b>	SMEs & CAP Model	14 to 16/2/2021	19	5	38
<b>IBY</b>	SMEs & CAP Model	21 to 24/2/2021	30	13	60
<b>YCB</b>	Credit Risk	1,2/2/2021	15	2	30

PFI	TRAINING	DURATION	ATTENDEES	FEMALE	TRAINEE DAYS
Al-Itihad	SMEs & CAP Model	27,28/2/2021	13	5	39
IBY	Credit Risk Training	10,11/3/2021	31	15	62
Al-Itihad	Credit Risk Training	29/4/2021	42	23	84
YCB	Factoring Product I	16,17/6/2021	14	3	28
AMB	Factoring operation	7/7/2021	15	3	30
SBYB	SME Lending Introduction	10/7/2021	10	2	20
<b>Total</b>			233	81	479

During the quarter, seven PFIs received technical assistance to build SME lending capacity and offer new products. One hundred forty-one key partner bank employees participated in seven training events (252 training days) on CAP, SME credit risk management/lending best practices, and invoice-finance-product operation management. USAID third-party monitors noted the high quality of the interventions and the positive feedback received from the participants.

**I. PFIS ASSISTED WITH REVOLVING CREDIT FACILITIES**

ERLP is diversifying lending products for PFIs to meet the needs of different applicants and make it easier for borrowers to choose the best solution for their financing requirements. Revolving credit facilities were introduced for the first time during Q3. Unlike a conventional loan, a revolving credit facility is a line of credit with an established maximum amount, and the client can access the funds at any time when needed, saving time for both the bank and the business. It reduces the amount of processing required for each loan approval by allowing a client to make several drawdowns under one approved limit.

*“Yes, the training is very relevant to my work, and it is the core job of the financing unit of the bank. [...] The invoice financing training is a new product and the YCB is going to pilot it for the first time in the Yemeni market, so the training is important to us.” – Interviewed Male Training Participant at YCB*

The project introduced this vehicle to Tadamon Microfinance during the quarter and provided training for loan officers and senior management. ERLP developed the manual, policy, and templates required for using this product. Tadamon began implementing revolving credit facilities, and expressed their strong satisfaction with the product’s speed and efficiency. As a result, they have started to apply it to grant larger limits for selected clients with excellent credit histories.

## II. DEVELOP “PIPELINE SME 3” OF CREDIT-READY SMES AND FACILITATE THEIR ACCESS TO FINANCE

In addition to primary activities of supporting PFIs, the A2F component provides targeted technical support to address key financial constraints with selected progressive and promising SMEs in order to assist them in gaining access to banking and lending services. These selected businesses include firms that have received technical assistance through other ERLP components. The activities support both the businesses and the PFIs, by encouraging potential businesses to opt for official financial institution services -- rather than relying on informal money exchange houses.



SME & A2F staff in field visit to Afaq factory for mineral water  
Photo: ERLP Team

The team screens potential borrowers through initial assessment meetings, and then establishes a final list for further support and advisory services. The pipeline preparation starts by raising the targeted SMEs financial literacy awareness. The team offers advice on best practice resources and management, instructing SMEs on how to make a borrowing decision, and selecting the appropriate product to finance their gap needs. Finally, the team submits the final list of recommended SMEs to partner FIs for their communication and action.

Over this quarter, the team has developed an initial pipeline of eight businesses.

## III. FINALIZE M&C MECHANISM AND REPORTING CAPABILITIES

Based on the outcomes of the first two quarters, a comprehensive analysis of critical weaknesses in ERLP PFIs, and a systemic review of partner banks’ utilization of effective risk management tools, ERLP identified shortcomings in the critically important Monitoring and Control (M&C) function. The most common shortcoming identified in the PFIs included: (i) lack of awareness of risk management; (ii) confusion between the risk management and internal audit functions; (iii) corporate governance structure risk; and (iv) in some FIs, inadequate activation of the function of risk management.

ERLP then developed a strategically targeted TA plan and implementation methodology based on ISO 2018, 31000, OCED principles and guidelines for effective best practices standard of M&C and internal control practices.

During this quarter, the project worked intensively with the two partners banks, IBY and YCB, to optimize and develop internal control procedures and processes, enhance internal knowledge, and build the staff capacity to support the internal control process adequately. In this regard, ERLP developed an Internal Control Strategy and Manual of Procedures for the two banks. The strategy set a solid foundation for a systematic approach that identifies and prioritizes the risks and implements strategies to mitigate the risks. This focuses on the prevention of potential problems accrued all over the organization, and the early detection of actual problems.

ERLP also developed a best practice governance structure for the two banks – most especially important for IBY, as a family-owned bank – and developed the function and the job description of the Risk Committee inside the bank. In both banks, the new Risk Committees began exercising their functions this quarter.

The ERLP A2F team conducted a one-day training on Internal Control and Risk Management for Al-EtiHAD MF. The training focused on advanced tools for risk analysis and preparing tailored monitoring and control mechanisms for piloting purposes.

#### IV. TEST LAUNCHING OF AUTOMATED PROCESSES AND PRODUCT(S)

Inadequate understanding of SMEs credit risks, over-emphasis on asset-based lending requirements, ill-suited financial products, and lack of financial analysis skills, remain key institutional constraints limiting SEM access to credit resources in Yemen. ERLP's Credit Application Analysis Package (CAP) is one of the project's strategic tools used to overcome these constraints and systemize the credit process in the project PFIs, based on the application of international best practice standards.

During the first two quarters, five out of seven FIs received comprehensive theory-based training of the CAP model. This reporting quarter was dedicated to practical application, and the project conducted an intensive on-the-job training session with the PFIs. The training included the hands-on application of ERLP's CAP, including both financial and non-financial elements. The team also worked with PFI staff on the collection of historical data to be used to derive and determine the probability of default (DP) for targeted segments of each bank.

Actual cases of SMEs applying for credit with the PFIs were selected and implemented through the application of the CAP process during the pilot phase. The use of the CAP has already dramatically changed the credit approach within ERLP PFIs. The senior management in three partner banks (IBY, YCB, and Al Amal) decided to use the CAP model as the certified tool to implement all credit transactions for SME lending, and the resulting credit portfolio growth in the three banks has been notable.

During the reported period, project experts also finalized the installation of the invoice finance underwriting tool in two partner's FIs, Al Amal Bank and YCB. The tool was developed by the A2F team. It will enable the two banks to systemize the finance process of client's invoices, buyer's analysis, and the management of clients' aged-accounts receivables. ERLP also assisted El Tadamon by developing a treasury management financial tool based on protected Excel sheets, in order to manage better the funds received from saving accounts and time deposits. It will also assist the bank in effective liquidity management at the branch level and for purposes of determining how much can be allocated for investment or re-lending.

The new invoicing product introduced in these banks will facilitate short-term finance for small traders and enhance their cash flow, thereby more broadly enhancing internal trade in Yemen. The product focuses on both the medical sector and food processors value chains. Currently, four branches of Al Amal provide invoice finance in the Aden, Abyan, Hadramout, and Taiz branches of YCB.

Furthermore, ERLP introduced the Sell-and-Lease-Back Islamic Ijara product to Shamil Bank of Yemen and Bahrain SBYB. This product allows small manufacturing companies to receive financing based on their own assets. The entrepreneurs sell the production line to the bank and rent it, with the option to re-buy it after the full repayment of the loan. The result is that the product allows small producers to receive working capital without collateral. The product will be tested in the next quarter.

## V. PROVIDING SUPPORT TO THREE PARTNER FIS TO REACH MARKET INTERMEDIATION ACTIVITIES AND OPENING ELECTRONIC SAVINGS

Despite a strong market presence in urbanized and northern locations in Yemen, FIs have found it extremely difficult to scale up operations in rural and southern areas. They are constrained by weak infrastructure, manual processes, and high service delivery costs. The banks offer traditional and manual products and services, with limited use of digital financial services – thwarting efforts to serve nationwide clients.

After launching the invoice finance product, the ERLP A2F team worked intensively during the quarter with Al Amal bank and YCB to develop a factoring platform that will create a better and more accessible digital lending environment. The aim is to create an online presence with quick and convenient access to services and minimize the need for customers to physically visit a branch office.

The project worked in this regard with an IT consultant to launch the process of developing the platform of online invoice finance for the two banks. The digitization of the product could become a game-changer in the Yemen market. The functionalities to be developed will enable SMEs to use technology and Fin-Tech platforms to sell or auction their trade receivables owed by their customers. Fin-Techs select and structure eligible receivables and match them with investors. SMEs can then directly connect their accounting software to the invoice finance platform and apply for a loan based on the value of individual receivables. The next step of this project will be the digitization of reverse factoring with Kuraimi Bank in order to better manage the payment of big buyers to their small suppliers.

### Milestones in Geographic Credit Supply – The Tadamon Story

Yemen’s southern and eastern areas are known for limited financial institution reach. FIs limit their presence to very few urban central locations, and most potential borrowers are still underserved. Effective outreach is a major challenge to access to finance and financial inclusion initiatives. Due to political, logistical, stability, and administrative reasons, businesses, banks, and MFIs have concentrated on the capital Sana’a and other northern cities. Other areas were becoming less attractive for doing business.



ERLP A2F activities focused on leveraging financial services in areas where financial services are limited or unavailable. PFIs are encouraged to expand their presence in ERLP geographical domain. The team supports FIs with lending strategies and appropriate products to help them establish expansion strategies to new markets.

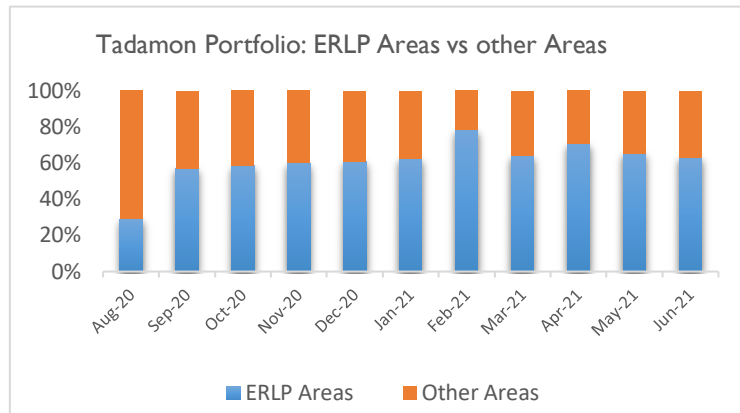
Collaboration with Tadamon Microfinance has been remarkably successful in facilitating the implementation of this transformational approach. Tadamon is gradually shifting outreach pace and portfolio allocations towards underserved areas, especially in southern and eastern regions. It launched two branches in the southern city of Abyan, along with one in Hadramout, which is in the eastern part of the country. Last month, the PFI opened a new branch in Almahra – a notable achievement in this remote and easternmost region of Yemen, scarce banking or MFI services are scant



ERLP A2F support enabled Tadamon to increase loans disbursed in targeted areas. The month-over-month portfolio size in ERLP areas increased from 29% in August 2020 by 63% or more in June 2021 – reaching 70% during some months.

With continued support from ERLP,

ERLP has introduced risk management tools, application assessment, and credit processing techniques to help Tadamon effectively manage risks as well. It has helped to successfully mitigate risk through this expansion. In this regard, in June 2021, PAR was 1.7%, a net drop from 2.7% in December 2020.



## VI. SME LENDING INDICATORS

During the reporting period, ERLP continued to work with PFIs to grow their respective SME lending portfolios. To achieve this, the project encouraged partners to assess the strength of businesses through rigorous and rapidly applicable financial and non-financial analysis techniques, based on readily accessible business performance information -- rather than through the imposition of excessive collateral requirements. Results led to dramatic improvements in the PFIs SMEs loan portfolios, which have now exceeded \$10 million in lending, with \$1 million of the loans going to women-owned firms.

Additionally, during this quarter, A2F advisors have worked with the PFIs to develop improved financial tools, including short-term working capital finance, leasing, Bai Slam, and invoice financing. These products were formally tested and launched. ERLP also launched a dedicated SME unit at IBY, which initiated SME lending under an initial pilot phase. The new unit has already disbursed nearly \$425,000 to 80 SMEs. The use of the CAP model is leading to a dramatic change in Al Amal loan sizes. Moreover, the client segmentation is targeted to increase from an average loan size of \$500 to \$2000 per loan and will continue to increase El Tadamon’s outreach.

The A2F component has enhanced the capacity of partner FIs to manage agricultural credits more effectively, which is poised to generate a significant increase in sustainable agriculture lending over time. In this regard, comprehensive risk management training related to agriculture lending has been provided to Kuraimi Bank, Al Tadamon Microfinance Foundation, and Al Amal Bank. The project also trained Al-Ittihad Microfinance Program on the aforementioned Bai Salam and Ag-value chain finance. This quarter, Bai Salam and other ag-lending activities generated almost \$1 million in new agricultural loans, of which \$65,374 were to 16 women.

ERLP PFIs significantly enhanced their SMEs lending performance this quarter. A total of \$6 million was disbursed to 1,191 SMEs – 374 of them to women-owned businesses. Of 96 loans disbursed for agricultural activities, ten were to women.

**Table 31: Detailed Figures up to June 30, 2021**

NON AGRO LOANS	MALE (NO)	MALE (USD)	FEMALE (NO)	FEMALE (USD)	TOTAL (NO)	TOTAL VALUE (USD)
TM	1,129	2,946,620	416	528,796	1,545	3,475,415
AMB	771	387,483	318	179,565	1,089	567,048
Itthad	284	368,673	314	234,155	598	602,828
YCB	64	3,987,817	0	0	64	3,987,817
IBY	66	359,057	14	66,559	80	425,616
Total Non Agro	2,314	8,049,649	1,062	1,009,075	3,376	9,058,724
AG LOANS	MALE (NO)	MALE (USD)	FEMALE (NO)	FEMALE (USD)	TOTAL (NO)	TOTAL (USD)
TM	73	672,886	4	50,891	77	723,777
AMB	0	0	0	0	-	-
Itthad	139	266,721	12	14,482	151	266,721
YCB	0	0	0	0	-	-
IBY	0	0	0	0	-	-
Total Agro Loans	212	939,607	16	65,374	228	990,498
Grand Total	2,526	8,989,256	1,078	1,074,449	3,604	10,049,222

Total SME Borrowers	1,191
SME female Borrowers	374
Total Agro Borrowers	96
Agro Female Borrowers	10

## VII. ERLP FEEDBACK LOOP APPROACH

ERLP's feedback loop approach facilitates integrated implementation of interventions across project components and maximizes SME partner access to the project's broad package of assistance, including targeted technical/training assistance, workforce development activities, access to credit, and market linkage support across high potential value chains. The project leverages strategic linkages between and among core components and activities to maximize competitiveness enhancement and employment and income generation impacts. For example, this quarter, the ERLP SME and A2F teams supported a \$100K loan from Al Kuraimi Bank to Al Afaq Gate Company. This loan allowed the company to expand its sales

distribution points across several governorates and obtain exclusive local distribution rights for Life Pharma and Ziva from UAE, and IVascular from Spain.

## **2.2 SUSTAINABLE LIVELIHOODS**

Agriculture and fisheries constitute a primary source of Yemen's livelihood, ranking only behind petroleum in economic significance. The sectors are highly labor-intensive, employing over 50 percent of the rural workforce and accounting for more than 20 percent of GDP. To support these core industries, ERLP implements targeted, market-led efforts to improve entrepreneurial capacity. The project applies best practices and improved technologies for augmenting both production and quality while enhancing downstream market development and integration. In the wake of the humanitarian crises, the agricultural and fisheries sectors are critical to expanding food security, decreasing import reliance, and increasing vulnerable household incomes.

### **2.2.1 AGRICULTURE AND AGRIBUSINESS**

A more stable and positive future for Yemen depends on having robust agricultural markets and farmers with the capacity to produce and supply them. The agriculture sector is underperforming because of low productivity and limited market access. Over the years, outdated farming practices have resulted in an escalating decline in output, directly contributing to increased rural poverty. ERLP introduces technologies and best practices to increase returns to producers across four key value chains: coffee, horticulture, honey, and livestock. The goal is to shift mindsets from increasing farm output to improving farmer incomes. Targeted upstream ERLP support, in this regard, promotes the efficient use of scarce resources to reduce production costs and wastage, improve product quality, and leverage high-end markets to increase producer prices.

The project builds smallholder farmer capacity in the abovementioned value chains through targeted technical assistance, training, and hands-on learning through ERLP-established farmer field schools and small-farm enterprise demonstrations. For small-scale markets, ERLP interventions bolster vertical and horizontal linkages and build trust between value chain actors. The promotion of new technology and techniques through targeted training improves agriculture productivity and workforce quality.

The ERLP Market Linkages team works with targeted value chain clusters in the four value chains to develop stronger working relationships – and establish more lucrative sales agreements – with major buyers and traders. The impact of the downstream support interventions improves the prospects for long-term sustainability.

Over the past nine months, ERLP has worked with upstream/downstream participants to strengthen the above-referenced value chains and increase the quantity and value of agricultural commodities under a strategically structured technical support plan. The project established 13 clusters of farm families in 15 districts across four governorates and facilitated the selection of community cluster representatives. To date, the project has successfully built the technical capacity of 2,833 beneficiaries through 88 training events. These events have improved output by introducing affordable, innovative technologies that significantly increase input efficiency and productivity. As a result, ERLP skills training has substantially reduced postharvest losses and added value to farm products, enhancing farmer productivity and increasing household incomes. Improving the quality and efficiency of farmers' production helps build their access to new value chains and distribution channels.

ERLP has also established seven farmer field schools and the same number of demonstration sites to showcase and increase the uptake of low-cost, high-return farming activities. These sites demonstrate efficient water use, livestock fattening, greenhouse production, low-tunnel farming, the modern beehive, drip irrigation, and hybrid seed production. ERLP-supported technologies have the potential to provide a considerable return on investment or increase in yield in 3-12 months. Data gathered from ERLP-demonstration sites showed that goat/lamb fattening provided a 41 percent return on investment in less than three months; low-tunnels demonstrated a 275 percent more return on investment compared to traditional practices in one watermelon production season; greenhouse production yielded a 2,600 percent increase for tomatoes in one season compared to traditional practices on a per-unit-area basis; and drip irrigation enhanced water use efficiency by 70 percent, while also reducing the cost of diesel fuel needed to pump water by 70 percent. The demonstration sites also incentivize farmers from outside the participating cluster groups to adopt improved technological solutions and enhanced cultivation techniques, creating significant, indirect spillover effects.

ERLP learning platforms engage private sector input supply companies, business service providers, and government extension agents. They demonstrate the productivity gains that smallholder farmers can realize by adopting improved farm management practices and new technologies.

To support sustainable market linkages to farm families in a manner that will significantly raise rural incomes on a sustainable, long-term basis, ERLP also identifies important downstream market opportunities to boost sales and increase household incomes. The project engages with clusters of farmers to build their capacity to negotiate contracts with new buyers more strategically. During the quarter, ERLP facilitated 89 new sales agreements worth \$ 1.03 million – resulting in a total of 317 agreements worth \$ 4.59 million over the span of the project.

### QUARTERLY WORK ACTIVITIES AND DELIVERABLES

The ERLP SL Agriculture and Agribusiness component achieved the following targets outlined in the work plan: (i) conducting value chain training and establishing demo sites and farmer field schools to provide farmers with hands-on training; (ii) conducting farm-level visits to encourage farmers to implement ERLP technologies; (iii) implementing targeted technical assistance to partner traders, processors and associations; and (iv) expanding the database of new, qualified traders/key buyers, signing sales agreements, and identifying new processors. All activities undertaken incorporated gender and ensured the active participation of women to the greatest extent possible.

**Table 32: Q3 Agriculture and Agribusiness Activities and Deliverables**

ACTIVITY	DELIVERABLES
Conduct value chain training.	1. 233 new cluster participants trained
Establish new demonstration plots.	2. Two (2) new demo sites established: one on drip irrigation and one on tunnel farming.
Establish new farmer field schools (FFSs) and conduct hands-on learning sessions.	3. Four (4) new FFSs established; one on good agricultural practices for onion production, two on coffee production management, and one on honey quality
Collect evidence demonstrating farmers applying new technologies or improved management practices.	

ACTIVITY	DELIVERABLES
Follow up ongoing technical assistance for selected processors and preparation of a second group.	management. At FFS sites, hands-on-learning provided to 536 farmers
Implement strategic market linkage strategic to close sales deals under each VC.	4. 128 farm-level visits conducted
Design technical intervention for honey and coffee exporters and processors, and provide targeted technical assistance to livestock and horticulture processors.	5. Five new partnership agreements were signed, and relevant TA implemented. Ten new processors and exporters identified for the next quarter.  6. 100 sales agreements signed between key traders and farmers within the 4 VC valued at \$1 million in sales  7. \$100k achieved from coffee and honey electronic platforms.

**I. VALUE CHAIN TECHNICAL TRAINING, ESTABLISHMENT OF DEMO SITES AND FARMER FIELD SCHOOLS**

**ERLP FATTENING ACTIVITY IMPROVES LIVESTOCK FARMER INCOMES**

**“I have never expected to achieve a nearly threefold growth in my farm income.” — Mr. Saeed Naser Yousf, Livestock Farmer, Tuban District, Lehj Governorate**

In October 2020, Mr. Saeed Naser Yousf from Al Obidah village in Tuban District (Lehj Governorate) participated in ERLP training. Soon after the training, Mr. Saeed fattened his 24 lambs by applying ERLP fattening techniques. Mr. Saeed vaccinated and dewormed his lambs against fatal diseases and parasites prior to fattening. Mr. Saeed fed his lambs based on the ERLP-daily feed requirement that uses a mix of hay/dry fodder, green fodder, and minerals. By investing an additional 20,000 Yemeni Riyal (YR) per lamb, Mr. Saeed earned 125,000 Yemeni Riyal (YR) as net profit per lamb in four months, compared to 45,000 YR earned by his fellow farmers who fed their lambs under traditional practices. After witnessing the 270% net profit he achieved, many of Mr. Yousf’s fellow farmers have shown interest in the ERLP fattening activity. “The additional income I have earned through ERLP technical support has helped me expand my farming business and improve the livelihood of my family,” says Mr. Yousf. ERLP SL advisors observed during follow-up visits that significant numbers of livestock farmers are now applying livestock management practices learned during the ERLP training.



ERLP technical training introduces improved, market-led farming practices and new technologies that significantly impact coffee, honey, horticultural crops, and livestock production and quality. This quarter, the SL Agriculture component trained 769 farmers through 31 training sessions and established two demonstration sites and four farmer field schools (FFS). ERLP technical interventions address weaknesses identified through technical assistance needs assessments (TANAs) that impede production and agriculture sector growth. The training events consist of classroom presentations as well as practical, hands-on learning in the field designed to improve production techniques, reduce

waste, and enhance product quality. All participants are provided with manuals developed by ERLP technical advisors for future reference.

### Horticulture Value Chain

With rising production costs and diminishing water resources, Yemeni growers are increasingly compelled to innovate. Poor production, harvest, and postharvest handling practices result in low horticultural crop yields and significant wastage. In response, tightly targeted ERLP technical/training support efforts improve small producer livelihoods in the horticulture value chain by improving production, harvest/postharvest handling practices, and creating sustainable market linkages. ERLP training educates farmers about modern techniques for growing tomatoes, onions, chili peppers, and watermelons, using greenhouses, low tunnels, and drip irrigation to improve production, enhance quality, and reduce waste.



*Participants are learning drip irrigation integrated with plastic mulching in Lehj Governorate – photo courtesy SL Aden team*

During the quarter, ERLP established one FFS on onion production management in the Al Madaribah District (Lehj Governorate) and one on tunnel farming in the Khanfar District (Abyan Governorate). The project provided hands-on learning to 59 participants by conducting two FFS sessions on onion production management. Three FFS sessions introduced 72 tomato producers to tunnel farming.

During the reporting period, thirty-four farmers were trained in watermelon production management and postharvest handling in the Ahwar District (Abyan Governorate). By effectively applying greenhouses, drip irrigation, and tunnel farming -areas of intense focus by ERLP experts and trainers - beneficiary farmers significantly increased production while conserving water, fuel, and fertilizer to lower production costs and maximize the effective use of essential agricultural inputs. Project experts also introduced a modern seedling production method, using peat moss as a growth medium. Seedlings produced using this technology have lowered production costs and increased crop yield by 15-20 percent.

ERLP established one demo site on drip irrigation in Al Madaribah District (Lehj Governorate) and one on low-tunnel farming in Tuban District (Lehj Governorate). Results compiled by the ERLP Sustainable Livelihoods component from the demo sites during this quarter show remarkable progress. The greenhouses demonstrated a 2,600 percent higher tomato yield on a per-unit-area basis compared to traditional practices; low-tunnel farming showed 275 percent more return on investment in watermelon production compared to traditional methods; and drip irrigation increased over 70 percent water-use efficiency, saving the same percentage in diesel fuel used to run water pumps.

During follow-up visits, ERLP SL advisors observed a significant number of beneficiaries applying technologies and practices they had learned during ERLP training.

**Livestock Value Chain**

In Yemen, outdated breeding practices, poor nutrition, contaminated feed and water, parasites, and disease are widespread and largely unchecked. As a result, most domestic livestock show signs of malnutrition, parasite infestation, and poor genetic makeup. In response, ERLP targets smallholder farmers to improve their production and marketing capacities through practical technical training and quick-impact field demonstrations.

ERLP trained 161 small farmers during the quarter, including 82 women (51 percent), in the Ghayl and Bawazir Districts (Hadramout Governorate). The training focused on proper nutrition, examination, and diagnosis. Improvements in these areas can significantly improve productivity and reduce economic losses.

**Table 33: Goat/Lamb Fattening Sites and Results**

ACTIVITY LOCATION	# OF FATTENING DAYS	RETURN ON INVESTMENT
Ad-Dees/Hadramout	91	43%
Tuban/Lehj	71	40%
AVERAGE	81	41%

Key training topics included feeding, feeding requirements during various stages of life, balanced rations, maintenance of quality feed, and the importance of fresh drinking water. Trainees also learned about proper hoof trimming, growth maintenance/monitoring, caring for livestock during pregnancy and lactation, and constructing livestock feeders and drinkers (using locally available materials). Additionally, trainees were introduced to prevention measures and management of regular outbreaks of screwworm infestations.

During Q3, six FFS sessions were conducted, providing hands-on learning for 141 females on fattening in the Tuban District (Lehj Governorate). The sessions also showcased and promoted fattening as a highly profitable small farming enterprise that can provide an over 40 percent return on investment in just three months. ERLP concluded the two demonstration sites established during the previous quarter on fattening and conducted economic analyses of the gatherings. Results presented in the above table show a 41 percent average return on investment in less than three months.

**Honey Value Chain**

Among the four ERLP value chains, honey holds the highest upstream (production) and downstream (processing and marketing) potential for substantial growth. However, local honey producers lack the experience and know-how to produce quality, significantly higher value-added products. ERLP provides producers with the technical knowledge needed to combat honeybee pathogens effectively and increase productivity through modern beehive and beekeeping



*Female participants learning beehive management during practical session in Hadramout Governorate - courtesy Mukalla SL team.*

best practices, in order to leverage the sector’s full potential. Beekeepers are shown how to harvest and process high-quality products and use more effective packaging, labeling, and branding. The project also provides access to profitable markets for value-added, natural, organic products.

This quarter, ERLP trained 38 female cluster participants in the honey value chain in the Shibam District (Hadramout Governorate). The training interventions covered a wide range of modern beekeeping practices and honey processing technologies, including types of hives (focusing on the modern beehive), queen bee rearing, and enhanced control of common bee diseases. It also introduced to producers multiple uses of previously discarded beeswax. Improved quality, presentation, and postharvest management practices introduced by ERLP experts are measurably improving production and product value.

During the quarter, ERLP provided hands-on learning to 95 honey producers/processors by conducting four FFS sessions on honey quality management in the Shibam District (Hadramout Governorate). The ERLP experts explained how proper bee nutrition, various enzymes, heating and cleanliness, and hygiene impact honey quality.

**Coffee Value Chain**

Coffee production provides direct income to almost 90,000 small-scale farmers in Yemen, including many subsistence-level farming families. Historically, Yemeni coffee has been viewed as some of the finest in the world. However, the coffee producers, processors, and traders need technical assistance to improve their production, quality, and marketing capacity to reap greater benefits from coffee harvests and bring “premium certified” coffee to regional and international markets.

To strengthen production upstream, ERLP organized seven FFS sessions to provide hands-on learning to 169 coffee producers on key aspects of production and postharvest management in Al Mawaset and Shemayteen Districts (Taiz Governorate). The training focused on coffee nursery production, irrigation scheduling, fertilizer application, pruning, coffee tree disease management, and coffee bean picking and drying. The training has led to success stories, with farm producers reporting increases in their annual incomes of 100 to 500 percent thanks to higher yields and the improved quality of their coffee harvest.

**A Multi-Fold Increase in Income**

Mr. Aref Noman from the Bani Hammad area in Al-Mawaset District (Taiz Governorate) was one of the 157 coffee producers participating in ERLP coffee value chain training. He learned how to compost farm waste and use it to maintain soil fertility, as well as to schedule irrigation, manage pests and disease by using organic means, and remove unproductive branches during pruning. Mr. Noman also learned when to pick coffee cherries, how to dry coffee beans, and how to grade and market them.

In the season before participating in the ERLP training, Mr. Aref harvested just 60 kilograms of coffee beans from his 120 coffee trees, which he sold for 300,000 Yemeni Riyal (YR). Deducting his production costs of 120,000 YR, his net income from his coffee harvest was 180,000 YR.

This season, Mr. Aref applied the production and postharvest management techniques learned through the ERLP training. His coffee trees produced 180 kilograms of coffee beans – three times the previous year’s yield. Because it was also of higher quality, Mr. Noman was able to sell this year’s coffee harvest for 1,080,000 YR. Deducting his slightly higher production costs of 180,000 YR, Mr. Noman’s profit was 900,000 YR – resulting in a 500 percent increase in his coffee income.



## II. GENDER MAINSTREAMING

In recognition of women’s crucial contributions to agriculture, gender mainstreaming remains at the core of ERLP Sustainable Livelihoods support activities. One of the primary causes of the sector’s underperformance in Yemen is that women lack adequate access to production resources and opportunities. The resulting adverse impacts include lost agricultural output, increased food insecurity, and diminished economic growth. Overcoming the gender gap is vitally important, considering that women typically spend more than their male counterparts on food, health, clothing, and education for their children. When women’s incomes increase, their dependents enjoy a higher standard of living.

ERLP designs and implements initiatives that expand women’s participation in all four value chains. By improving women’s access to inputs and creating new opportunities by identifying and disseminating industry best practices, ERLP transfers the knowledge and information needed to achieve successful outcomes. To date, ERLP has trained 1,077 women (38 percent of all project beneficiaries), including 682 in livestock, 147 in horticulture, 142 in honey, and 106 in coffee.

## III. NEW PARTNERSHIPS ESTABLISHED AND TECHNICAL SUPPORT PROVIDED

During this quarter, ERLP expeditiously continued market linkages activities implementation following the project’s signature market-driven development approach. ML experts collaboratively engaged with over 20 local honey and coffee processors and farmers to identify their most pressing marketing and outreach limitations. ERLP provides market-led, tailored technical assistance and training support to partner SMEs through onsite assistance delivered by market linkages experts, supervised and guided by an experienced team of offsite senior SME competitiveness enhancement experts.

Following this rigorous scoping effort, the project selected a group of 20 SMEs to receive targeted assistance. Goal-focused technical interventions between ERLP and individual processors/traders, developed by the market linkage experts, identified each firm’s unique growth goals, market linkage enhancement parameters, and corresponding targeted technical and training support areas.

In Q3, ERLP developed and implemented strategic technical interventions for seven project-supported traders, processors, and associations, resulting in new sales agreements worth \$713,400. The project’s downstream technical interventions included distribution, wholesaling, and retailing, all of which helped ensure timely delivery to clients. The table below provides the complete list of ERLP partners that received technical support this quarter by value chain, location, specific support intervention, and incremental revenue generated.

**Table 34: New Partnerships Established and Technical Support Provided Partner Value Chain Location Intervention Incremental Sales Value (US\$) Country**

Partner	Value Chain	Location	Intervention	International Sales Value (US\$)	Country
Mokha Story	Coffee	Taiz	Strengthened buyer/seller relationships.	116,000	Korea

Partner	Value Chain	Location	Intervention	International Sales Value (US\$)	Country
Honey Hadramout For Trading	Honey	Hadramout	Developed a high-impact marketing plan and rigorous, systematic, and integrated sales strategy.	91,000	KSA
Bin Bishr	Honey	Shabwa	Identified new marketing channels with improved coordination links between farmers, processors, and international buyers.	275,000	KSA
Mahmoud Stores	Honey	Seyoun	Designed and implemented a comprehensive, demand-driven, market-access strategy	120,000	Yemen
Al Assil for Honey	Honey	Hadramout	Marketed previously discarded beeswax	13,400	KSA
Hadramout Honey	Honey	Abyan	Strengthened buyer/seller relationships	50,000	Yemen
Pearl of Tehama	Coffee	Taiz	Designed and implemented a comprehensive, demand-driven market access strategy to establish strong, sustainable commercial corridors	48,000	Korea
<b>TOTAL</b>				<b>713,400</b>	

#### IV. EXPANSION OF DATABASE OF NEW QUALIFIED TRADERS/KEY BUYERS, SIGNING NEW SALES AGREEMENTS, AND IDENTIFYING NEW PROCESSORS

By fostering innovation, employing industry best practices, and identifying new export opportunities, ERLP has better integrated Yemen into more lucrative regional and international markets. ERLP downstream support interventions and strategically targeted technical training and marketing support have significantly lowered transaction costs while enhancing distribution channels. This, in turn, has resulted in multiple new, sustainable export opportunities with large buyers in Korea, Saudi Arabia, and the United States.

The ERLP buyer database has been expanded to include more than twenty new traders and buyers, with important local and international connections. The ERLP SL Market Linkages experts achieved key targets for the quarter, signing 90 new sales agreements (against a target of 100) valued at \$1.03 million (against a target of \$1 million). New international sales agreements between farmers, exporters, and international buyers totaled \$554,000.

The table below provides additional details on new sales agreements concluded between farmers, producers/traders, and exporters during this past quarter:

VALUE CHAIN	INTERNATIONAL SALES VALUE (US\$)	COUNTRY
Coffee	174,570	Korea, US
Honey	379,400	KSA
<b>Total</b>	<b>554,000</b>	

### Honey Value Chain

This quarter, Market Linkage (ML) advisors has continued to develop important commercial linkages supporting honey traders in Hadramout and Shabwa Governorates. In this regard, ERLP worked intensively during this past quarter with key traders and processors to facilitate new market linkages. In Hadramout Governorate, the ML advisors further intensified collaborative support activities with Bin Bishr for Honey—a large honey producer with strong international networks, particularly in Saudi Arabia. ERLP has been working with Bin Bishr to scale up production and devise a strategy to increase exports. During the quarter, ERLP/ML verified the execution of new sales agreements between honey farmers and Bin Bishr and a buyer from Saudi Arabia, totaling \$275,000.

Similarly, the project worked strategically with Honey Hadramout for Trading—a key honey trader in the Hadramout Governorate—to develop a high-impact marketing plan and rigorous, systematic, and integrated sales strategy. The strategy has significantly boosted the company’s sales and leveraged access to more profitable domestic and international markets.

Additionally, ERLP facilitated a new sales agreement between Al Asil for Honey—a key trader and ERLP partner—and the Saudi Beekeeper’s Association in Al Bahah (located in the west of Saudi Arabia in the Hejaz area) for beeswax. This initial agreement was valued at \$13,400. Beeswax, which historically has been discarded as waste, provides substantial additional income to Yemeni honey producers.

Aiming at diversifying and increase its portfolio of beneficiary partners, ERLP/SL Market Linkage has worked intensively with Mahmoud Stores for Honey—a key honey trader in Hadramout Governorate—to design and implement a comprehensive, demand-driven, market-access strategy. The strategy has enabled the company to promote its products more effectively and better position itself in local and regional markets. As a direct result, Mahmoud Stores has realized new commercial sales of Sidr and Marai honey totaling \$120,000. ML advisors also facilitated Honey Hadramout for Trading’s further penetration into the very profitable Saudi market. Over the reporting quarter, the company signed additional sales agreements with key buyers totaling \$41,000.

New export procedures and production processes developed by the project have enabled Hadramout Honey to increase sales to Abdelaziz Bin Musa Hakami Establishment, a key Saudi buyer based in Riyadh. During this quarter, the ERLP/ML team oversaw the signing of additional sales agreements totaling \$50k.

These types of strategically targeted downstream technical support interventions can play a critical role in helping beneficiary families diversify their revenue streams and increase their resilience.

### **Coffee Value Chain**

During this quarter, the ERLP/SL Market Linkage (ML) component implemented a strategic intervention designed to penetrate the very lucrative Korean market. Project advisors identified potentially promising linkages between Yemeni coffee farmers and processors and Korean buyers.

The project obtained and sent high-quality coffee samples from Talouq, Bani Hamad, and Al Haima (Taiz Governorate) to multiple coffee traders in Seoul for testing.

South Korean buyers have confirmed their strong interest in Yemeni coffee, based on the results of testing/cupping of green coffee samples provided by ERLP. The project then established one-year, renewable contracts with these Korean buyers targeting incremental revenue generation of \$300-500,000 by no later than December 2021.

As a result of these strategic interventions, the ML team has facilitated an initial sales agreement between a Seoul-based specialty coffee importer and local coffee processor Mokha Story – a large producer in Taiz Governorate – for 188 kg of specialty green coffee beans, totaling \$12,600. This notable transaction – which establishes an initial footprint for Yemeni coffee producers/processors in the large and lucrative Korean market – was the direct result of market linkage efforts undertaken by the team.

The ERLP/SL ML team continued to scale up commercial relationships between Yemeni coffee producers and Korean buyers. Following the aforementioned initial sales agreement facilitated by the ML experts, Mountain Korea has placed a new order with Mokha Story for 108 bags of green coffee beans valued at \$103,470. Concurrently, the team continued to work with U.S.-based Al Aseel for Coffee, which placed an additional \$9.42k order this quarter for 200 kg of specialty coffee green beans.

### **Horticulture Value Chain**

During Q3, ERLP ML experts worked with Al Fallah Association – a cooperative that processes and distributes onions in Hadramout Governorate – to develop and implement an ambitious export strategy. The association has explored new markets in the region, including KSA. ERLP ML experts developed a comprehensive, short-term game plan addressing critical organizational weaknesses in support of these efforts. Concurrently, ERLP developed a new marketing strategy that has increased Al Fallah's access to sustainable international market opportunities. As a direct result of this intervention, the association created 15 new positions to meet market demand, with an expected increase of 40 percent in annual revenue.

### **NEXT STEPS**

ERLP SL advisors have delivered technical training to 2,833 farmers and established seven demonstration sites and seven farmer field schools. In Q4, ERLP advisors will complete all the cluster training and conduct village/farm level visits to collect evidence, demonstrating that farmers are successfully applying modern production technologies promoted by the project. During these visits, the ERLP SL team will encourage cluster farmers to apply their newly acquired knowledge, tools, approaches, and skills to expand production further and increase sales. The project will also promote

profitable small farming enterprises by organizing ten farmer field days at ERLP demonstration sites. Twenty-four additional hands-on learning sessions will be conducted for 350 farmers.

In addition to ERLP market linkages, experts will continue to address binding competitiveness constraints to capitalize on international demand for high-quality honey. During the 1<sup>st</sup> three-quarters of Year 1, the project has demonstrated the potential for scalable, cost-effective market linkage intervention with Yemeni farmers and traders in the coffee and honey value chains. Effectively targeted competitiveness enhancement clearly has the potential to enhance the sales/export/job generation capacity of strategic value chains. Looking ahead to Q4, ERLP ML expects to accelerate its market linkages outreach activities further and to achieve the following outcomes:

1. 100 new sales agreements signed valued at 1.25 million in sales.
2. 20 new processors and exporters are identified for the next quarter.
3. Coffee and honey value chains electronic platforms created and available for international buyers and 20K USD in sales value realized through the platform.

Moreover, in close coordination with the ERLP fisheries experts, ML experts plan to expand the platform's design and include the Yemeni fisheries value chain, taking full advantage of the benefits of intensive ML information-sharing opportunities. The unique platform will embed the three value chains and be available for international buyers during Q4.

## **2.2.2 FISHERIES**

### **BACKGROUND**

Fishing has traditionally represented Yemen's second-largest economic sector, producing approximately 400,000 tons of seafood annually while providing livelihoods for over 2.5 million Yemenis. The prolonged conflict dealt severe blows to much of the sector's infrastructure, reducing fishing ranges and exacerbating inefficiencies in the sector's management and governance. The fishing industry has been further constrained by a series of institutional and market-linkage constraints, that severely inhibit competitiveness and hinder robust income-generation opportunities.

The COVID-19 lockdown and containment measures led to additional disruptions, causing ripple effects across the entire value chain. Fisherfolk saw a steep drop in demand and prices. Processors lost access to lucrative regional and international markets as global restrictions on air, land, and sea borders adversely impacted seafood exports. Coastal women were disproportionately impacted, losing higher-paid fish-processing jobs, and left with low, typically unpaid caregiving and domestic work.

ERLP is working with a broad range of fishing industry stakeholders to help restore and sustainably improve the sector's performance. The project works directly with fisherfolk to improve capture methods, handling, and preservation practices that can significantly impact catch quality and quantity. The project also works with processors to strengthen management, boost production, and strengthen compliance with international quality and safety standards. Market linkages to more lucrative regional and international markets are also being bolstered.

ERLP is centrifugally focused on helping Yemeni fisherfolk and fish/seafood processors integrate effectively into regional and international export markets, which has massive unexploited potential. Moreover, consistent with the project's holistic approach to developing the sector, ERLP has also

provided direct assistance to coastal women; by supporting the design and successful marketing of handmade seashell jewelry and accessories.

## QUARTERLY WORK ACTIVITIES AND DELIVERABLES

The Fisheries component is working to effectively address sector constraints along the entire value chain to rekindle its potential as one of the most important contributors to Yemen’s exports and economy. ERLP provides technical and training assistance to improve seafood production quality, upskill workers in food hygiene and basic sanitation skills, and improve local and international market linkages.

During the reporting period, ERLP continued working with four main seafood processors: the National Fish Canning and Packing Factory (NAF), Burum Factory, Aden Stores Company for Trade Industry and Storage, and the Mukalla Fish Canning Factory. The fisheries team also provided targeted technical and financial skills-development support to coastal women, and promoted their products locally and regionally through targeted downstream support.

Overall, ERLP delivered technical assistance and training to 75 coastal women in Q3, helping them gain new or better employment, and supported women-owned microenterprises to generate increased sales. Training was also provided to 138 fisherfolk, who joined ERLP partner seafood processing companies to effectively work on the production line or become fish suppliers. Seafood processors/businesses reported increased sales of at least 10 percent, along with \$1 million in additional export sales.

**Table 35: Q3 Fisheries Activities and Deliverables**

ACTIVITY	DELIVERABLES
Vocational skills development	1. 75 new coastal women attained new skills or upgraded skills to increase their incomes (e.g., food processing, dry and salted fish)
Fish handling	
Quality standards training	
Provide technical/training assistance to seafood processors and other fisheries-related businesses	2. At least 60 new fisherfolk trained in improved fish handling. 3. 20 percent increase in income reported. 4. Five seafood processing plants reported improved hygiene and quality standards. Five fisheries-related businesses received technical support. 5. At least 10 percent incremental sales reported. \$1M in additional export sales reported

### I. COASTAL WOMEN SKILLS DEVELOPMENT SUPPORT

#### Seashell Jewelry and Accessories Making

In Q3, ERLP launched the second phase of the coastal women capacity building program in seashell jewelry and accessories making. Building upon the initial technical skills workshops, this phase focused on (i) more advanced techniques in seashell jewelry to respond to customer preferences and (ii) effective methods for expanding the buyer base and accessing new markets. Through online training and support, the 15 most advanced trainees were able to address key business growth questions, such as product price calculation, branding, and product marketing using social media. The ERLP beneficiaries

registered as women-owned businesses and promoted their handmade products; enhancing their capacity to deploy available resources to increase their market access, and improve market outcomes.

In early Q4, the targeted groups of coastal women in Mukalla and Ade will participate in two ERLP-supported bazaars to showcase their seashell jewelry and accessories. ERLP experts will continue to support market linkages between these coastal women and their new businesses, including international buyers. The intervention will allow trainees to export seashell jewelry through business-to-business and business-to-customer sales agreements, using a new e-commerce platform being developed with ERLP support.

## II. SUPPORTING FISHERMEN TO IMPROVE FISH HANDLING

During the past quarter, ERLP continued providing support to 138 fisherfolk to improve their skills in seafood handling and preservation. In this regard, ERLP designed market-driven interventions by assessing the needs of partner seafood processors, particularly for (i) recruitment of qualified workforce in clean handling and (ii) finding high-quality seafood suppliers/fisherfolk. ERLP collaborated with four key seafood processing firms (NAF, Burum Factory, Aden Stores Company, and the Mukalla Fish Canning Factory) and developed/conducted strategically targeted training based on the ongoing needs assessment activity program in fish handling, fish cleaning, and seafood conditioning.

As a result, 138 fisherfolk were upskilled and then employed full-time at one of the four seafood processors, securing sustainable employment/incomes.

## III. ERLP SUPPORT TO SEAFOOD PROCESSORS: ADEN STORES, BURUM, AND NAF

Ongoing ERLP technical assistance and training with NAF, Burum Seafood, and Aden Stores Company led to systematic upgrading of their services based on better-practice standards. A targeted training program entitled “Principles of Food Safety and Hygiene for Fish Industry Workers,” was designed and delivered by the ERLP team to each of the processing companies. It included the following modules:

- Principles of Food Safety
- Food Safety Hazards
- Good Personal Hygiene and Training in Tuna Cleaning
- Conditioning Skills

Notably, ERLP completed training for 70 coastal women, who subsequently secured positions in the cleaning and processing lines of the new seafood processor, NAF. This intervention raised the number of coastal women benefitting from ERLP skills development programs to a total of 182, since the program was launched. All four processors reported improved hygiene and quality standards.

ERLP helped Burum Seafood reposition itself and diversify its product line to recover quickly from losses associated with recent declines in fresh/frozen fish exports (following the global pandemic and border restrictions. This technical intervention supported Burum in developing 4 new value-added frozen seafood products for the local market; utilizing previously discarded fish parts and cheaper varieties, such as sardines. As a result, Burum is now responding to high local market demand for convenient/affordable options; while reducing wastage along the fish production line.

ERLP also worked closely with Burum to develop and promote 20 innovative and trendy recipes using the new frozen seafood products. The team collaborated, in this regard, with the marketing personnel of the regional distributors for Burum, and provided a training program on the new dishes and optimal ways to market/utilize the new products. In addition, ERLP prepared professionally crafted promotional videos and visual advertisement output for the new seafood recipes, which are now circulated on local TV and social media channels. Combined, these interventions enabled Burum to promote its new products throughout the country and significantly increase sales. For the first time, Burum was able to generate revenue during the off-season and combat COVID-related export disruptions, particularly affecting fishery processing and commercial activities.

In addition to diversifying production to serve the local market, Burum and ERLP worked together to improve the processing and export of frozen Octopus. ERLP market linkage regional expert reported to Burum the importance of preparing flowered Octopus to effectively compete in international markets. It is in this regard no longer acceptable to sell frozen octopus in bulk. ERLP supported Burum in purchasing the required equipment to prepare flowered octopus and produce orders for the European market, where there is a high demand for this product. In June, Burum received the equipment and expected to start production and export of flowered octopus in Q4.



Burum Seafood Factory



NAF Factory



Aden Stores Factory

#### IV. INCREASING EXPORT SALES

ERLP market linkage experts continued providing technical support during the reporting period by helping negotiate and close significant sales agreements. This key downstream intervention led a Hadrami processor ‘Lobster’ to sign a \$370k deal with an Omani trader for a three-month export sale of frozen sardines.

Moreover, ERLP market linkages support for Mukalla Fish Canning Factory led to the execution of a sales deal with a Jordanian trader, who expressed interest in representing the processor’s canned tuna products throughout Jordan. The first container of 25 tons of canned tuna, valued at \$87K, was sold under this arrangement. Following this key initial export success, the Jordanian trader expressed interest in ordering additional containers as well. Export of Yemeni yellowfin canned tuna to Jordan is expected to reach at least \$350k over the next few months.

#### Foreign Investment Deal: Al Tibat Fishmeal Factory and Indian Mocha Factory

During the quarter, the ERLP Fisheries team also facilitated a major leasing deal between an Indian investor and Al Tibat, a fishmeal plant owned by a group of Yemeni seafood traders. The two parties



agreed on a 5-year leasing arrangement. The investment is valued at \$2 million and will generate at least 25 FTE jobs.

Established in 2006, the Al Tibat Factory for Fishmeal in Al Shiher, Hadramout, has a monthly production capacity of up to 250 tons. Its main customers formerly were regional buyers from Oman, Egypt, and KSA. Fishmeal is used for the production of fertilizers and feed for livestock, salmon, and other farmed fish. Because of the conflict and the COVID-19 crisis, the factory was obliged to stop production activities and has been dormant for over two years.

In response, the ERLP fisheries team met with Al Tibat management and agreed to explore new buyers before reopening the factory. Project market linkage experts then identified an Indian business interested in investing in and running the Yemeni factory, which could, in turn, guarantee a sustainable supply of fishmeal for the next five years.

The ERLP fisheries team then identified an Indian investor interested in building a more sustainable relationship with Yemeni fishmeal suppliers. ERLP experts helped make the case that Yemen was a desirable alternative to Oman; based on the high quality of Yemeni sardines, the possibility of having a fishmeal factory near the waters from which the sardines are fished, and the absence of prohibitive regulations. In response, the Indian investor agreed to provide \$2,000,000 to cover operating costs to run the factory for the next five years, and create 25 new FTE jobs at startup. The investor is expected to visit Yemen and sign the agreement in August.

In order to help leverage the investment arrangement with the owner, the ERLP fisheries team is supporting the factory in resuming activities under a joint arrangement with the new Indian investor. In this regard, ERLP has provided tightly targeted technical assistance to assess the factory's readiness to restart production, and perform basic maintenance on relevant machinery.

## **NEXT STEPS**

During Q4, ERLP will continue implementing tightly targeted technical assistance and training activities supporting fisheries sector competitiveness and sales/export expansion. These will include:

1. Ongoing activities with a group of seafood processors in Aden and Hadramout (Borum, NAF, Aden Stores, Mukalla fish Canning, and Aden Gulf) to improve product quality and identify new regional markets.
2. Work with Burum Seafood to increase the production and processing of value-added seafood products, including exports of frozen flowered octopus to international markets identified by ERLP ML experts.
3. Promotion of Yemeni products, including handicrafts, coffee, and honey, through a newly developed e-commerce platform.
4. Training of a large additional number of fisherfolk in fish handling and food hygiene standards.

## MONITORING, EVALUATION, AND LEARNING

ERLP engages with the public and private sectors in Yemen, working to address the critical macroeconomic stabilization and private sector competitiveness enhancement challenges, which need to be addressed to stabilize economic conditions and sustainably enhance employment and earnings opportunities for the Yemeni people. These objectives will be accomplished through the achievement of two core component results: (1) macroeconomic functions of key institutions improved by strengthening the capacity of ROYG institutions (CBY, MOF, the Customs Authority, and port authorities) to restore macroeconomic stability, enhance the efficiency of fiscal management and increase international trade flows; and (2) microeconomic conditions improved seeks to strengthen private sector performance and competitiveness to create jobs and raise incomes.

To measure and report on the achievement of the eleven ERLP results statements, the Pragma Corporation utilized 25 performance indicators. Of these performance indicators:

- A total of 17 or 68% are ERLP contract required indicators.
- A total of 2 or 8% will be collected by USAID through an evaluative process.
- A total of 16 or 64% are custom or USAID standard archived (and now custom) indicators.
- A total of 14 of 56% are gender-sensitive indicators; and
- A total of 9 or 36% are Foreign Assistance Framework Economic Growth standard indicators.

### ERLP MEL ACHIEVEMENTS DURING THE PERIOD OF PERFORMANCE

During the period of performance, the following ERLP MEL tasks were achieved:

- April-June 2021: ERLP responded to three YCLE-USAID third-party monitoring reports, all of which had very positive feedback for the program, with no issues or recommendation actions raised.
- April-June 2021: ERLP provided to YCLE the monthly implementation plans for ERLP field activities – these plans are used by USAID to identify and schedule remote verification of ERLP events.
- May 18: MEL Manager and MEL Amman specialist attended 1 day Activity Monitoring, Evaluation and Learning Plan (AMELP) Training provided by YCLE to all IPs (with USAID also attending).
- June 1-2: MEL Manager and MEL Amman specialist attended a 2-day follow-on training focused on “Selecting and Developing Performance Indicators” provided by YCLE to all IPs (with USAID staff attendance).
- Mid-June 2021: ERLP started survey data collection for five key trade indicators with a Yemeni research firm.

# ERLP GEOGRAPHIC INFORMATION: BY COMPONENT

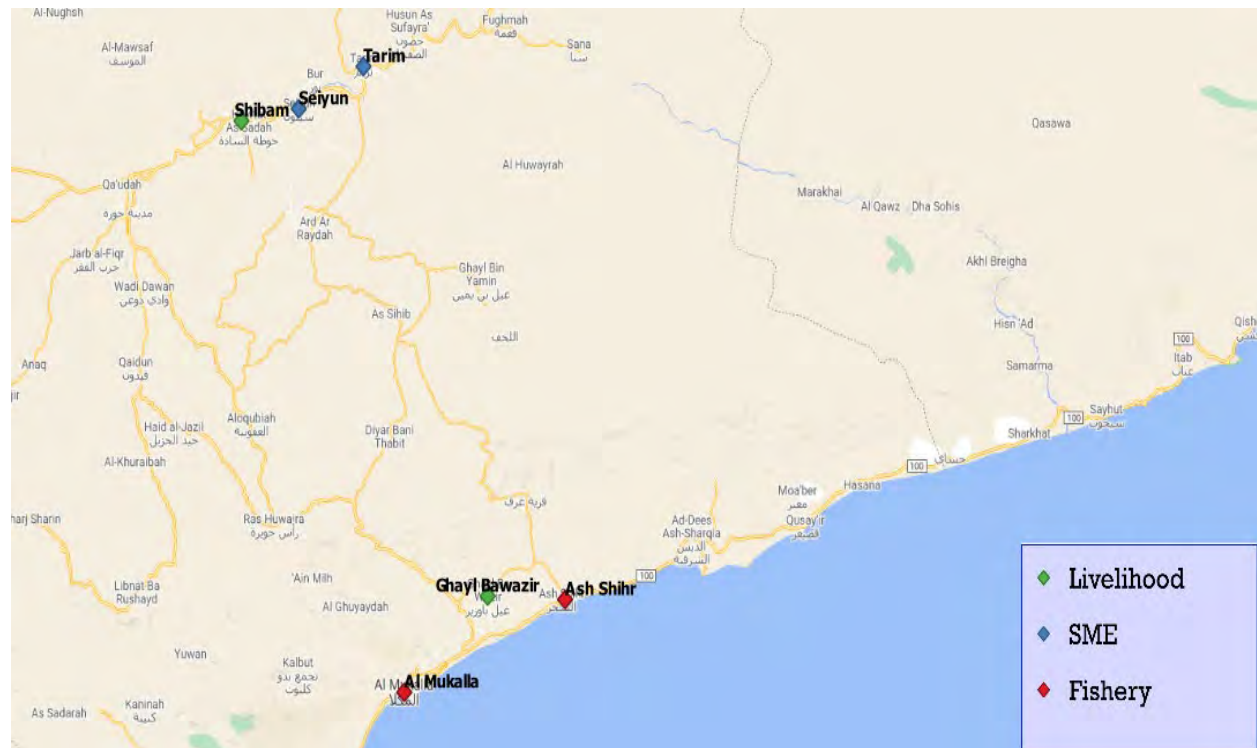
## MAP OF ERLP FIELD ACTIVITIES BY SUB-COMPONENT (APRIL– JUNE 2021)



## MAP OF ERLP BY SUB-COMPONENT – FOCUS ON ADEN (APRIL– JUNE 2021)



## MAP OF ERLP BY SUB-COMPONENT – FOCUS ON MUKALLAH (APRIL– JUNE 2021)



## PERFORMANCE INDICATOR ANALYSIS

The ERLP MEL plan functions as a key element that is fully integrated into the technical implementation. As a result, there is an operational feedback loop between implementation tasks and MEL. Performance data and information are shared in near real-time with the ERLP managers and decision-makers.

For this performance report, ERLP reports 17 indicators or 68 percent of the total proposed AMELP performance indicators – a 6 percent increase from the prior progress report. Each performance report is expected to report on additional indicators. Initially focused mainly on output indicators, the reports gradually introduce outcome indicator data and finally report impact indicators at the end of the program. This process reflects not only the ERLP theory of change but also the expected pace of change.

## OUTCOME I: MACROECONOMIC FUNCTIONS OF KEY INSTITUTIONS IMPROVED

Indicator I.a: Number of laws, policies, or regulations formally proposed, adopted, or implemented as supported by USG assistance: This custom ERLP indicator is based on a USAID standard Foreign Assistance Framework indicator and has been tailored to the Yemen context. ERLP Trade and CBY technical staff collect data for this indicator. Note that steps are not necessarily progressive, and some may be skipped altogether, or later steps occur before prior steps. During the performance period, ERLP assisted both the CBY Banking Supervision Department (BSD) and the CBY Financial Intelligence Unit (FIU) with developing an MOU on information exchange. The MOU was submitted to the Heads of the FIU and the BSD, both of whom then reviewed, approved, and officially executed the MOU. The

MOU establishes mechanisms to facilitate the exchange of financial intelligence and other information related to money laundering, terrorism financing, and related crimes.

<b>Table 36: I.a Number of laws, policies, or regulations formally proposed, adopted, or implemented as supported by USG assistance</b>							
<b>LOP TARGET</b>	500 <sup>1</sup> points	<b>ACTUALS</b>					
<b>LOP % ACHIEVED</b>	82%						
<b>ACTUALS (CUM.)</b>	410	<b>FY21 Q1</b>		<b>FY21 Q2</b>		<b>FY21 Q3</b>	
		<b>TOTAL POP</b>	140	<b>TOTAL POP</b>	210	<b>TOTAL POP</b>	60
<b>MILESTONE STEP (POINTS)</b>							
<b>P R O P O S E D</b>	<b>Concept/Agreement (10 Points)</b>	<b>40</b> ( <i>Anti-money laundering/Counter terrorism financing regulation; Model internal compliance procedures for IFIs; Protocol on the channels for information exchange; FX Auction Regulation</i> )					<b>10</b> (Memorandum of Understanding Between the BSD and the FIU)
	<b>Discussions between ERLP and Counterparts (10 Points)</b>	<b>20</b> ( <i>Anti-money laundering/Counter-terrorism financing regulation; FX Auction Regulation</i> )		<b>20</b> ( <i>Model internal compliance procedures for IFIs; Protocol on the channels for information exchange</i> )			
	<b>Workshops with Counterparts (30 Points)</b>	<b>60</b> ( <i>Anti-money laundering counter-terrorism financing regulation; FX Auction Regulation</i> )		<b>60</b> ( <i>Model internal compliance procedures for IFIs; Protocol on the channels for information exchange</i> )			
	<b>Draft prepared and Translated (20 Points)</b>	<b>20</b> ( <i>FX Auction Regulation</i> )		<b>60</b> ( <i>Anti-money laundering/Counter-terrorism financing regulation; Model internal compliance procedures for IFIs; Protocol on the channels for information exchange</i> )			<b>20</b> (Memorandum of Understanding Between the BSD and the FIU)
<b>A D O P T E D</b>	<b>Submitted to Counterpart (10 Points)</b>			<b>30</b> ( <i>Anti-money laundering/Counter-terrorism financing regulation; Model internal compliance procedures for IFIs; Protocol on the channels for information exchange</i> )			<b>10</b> (Memorandum of Understanding Between the BSD and the FIU)

<sup>1</sup> The LOP target includes: 5 laws, policies, procedures, or regulations adopted.

**Table 36: I.a Number of laws, policies, or regulations formally proposed, adopted, or implemented as supported by USG assistance**

	<b>Approved (20 Points)</b>		<b>40</b> ( <i>Anti-money laundering counter-terrorism financing regulation; Model internal compliance procedures for banks/Financial Institutions</i> )	<b>20</b> (Memorandum of Understanding Between the BSD and the FIU)
<b>I M P L E M E N T E D</b>	<b>Sent to Line Ministries (10 points)</b>			
	<b>Line Ministries issue guidance (10 points)</b>			
	<b>Enforced (10 points)</b>			
	<b>TOTAL</b>	70	210	60

### **INTERMEDIATE RESULT 1.3: TRADE FACILITATION POLICY DEVELOPMENT AND IMPLEMENTATION STRENGTHENED**

Indicator 1.3f – WTO Trade Facilitation Agreement provisions, recognized as substantive improvements and specified in conjunction with USAID, adopted (linked to EG 2.1-1) The data for this indicator is collected from the ERLP Trade experts and then verified by the MEL staff through a review of the supporting evidence. All the WTO TFA provisions reported have been adopted, most of them fully and some partially, because they are by nature medium- or long-terms provisions (e.g., 3-5 years implementation). For instance, the NTFC has been established because of ERLP support, but ongoing technical support will continue in order for the Committee to become fully functional.

During FY21 Q3, ERLP provided technical advice and training to the Yemen Customs Authority focused on a total of seven key provisions of the WTO TFA, including four new provisions including: Advance Rulings, Administrative Appeals, Border Agency Cooperation, and the National Trade Facilitation Committee (NTFC). Other performance indicators – specifically I.a "Number of laws, policies, or regulations formally proposed, adopted, or implemented as supported by USG assistance" – cover additional trade/customs relevant outcomes.

<b>LOP TARGET</b>	18	<b>ACTUALS</b>	
<b>LOP % ACHIEVED</b>	61%		
<b>ACTUALS (Cum.)</b>	11	<b>FY21 Q2</b>	<b>FY21 Q3</b>
<b>POP ACTUALS</b>	4		
<b>NEW PROVISIONS</b>		7	4

**Table 37: I.3f: WTO Trade Facilitation Agreement provisions, recognized as substantive improvements and specified in conjunction with USAID, adopted (linked to EG 2.1-1)**

LOP TARGET	18	ACTUALS	
LOP % ACHIEVED	61%		
<b>CONTINUING PROVISIONS</b>		0	3
<b>WTO PROVISION</b>		<b>Number of Activities per Provision During PoP</b>	
<b>Consultation</b>		2	1
<b>Expanded AEO</b>		1	1
<b>Risk Management</b>		4	1
<b>Advance Rulings</b>		0	1 (New)
<b>Use of International Standards (Customs Valuation)</b>		1	0
<b>Administrative Appeals</b>		0	1 (New)
<b>Post-Clearance Audit</b>		2	0
<b>Border agency cooperation</b>		0	1 (New)
<b>Information available - internet</b>		1	0
<b>Publication</b>		1	0
<b>National Trade Facilitation Committee</b>		0	1 (New)

Indicator I.3g – Number of new Authorized Economic Operators (AEOs) certified is collected from ERLP technical experts and directly from Yemeni customs officials and AEOs. During an ERLP-sponsored event in Aden focused on “Expanding the AEO,” two new import sector firms from the retail and manufacturing industries were certified.

**Table 38: I.3g: Number of new Authorized Economic Operators (AEOs) certified**

LOP TARGET	20	ACTUALS	
LOP % ACHIEVED	10%		
ACTUALS (Cum.)	2	FY21 Q2	FY21 Q3
POP ACTUALS	2		
<b>NEW AEOs Certified</b>		0	2
<b>Exporter</b>		0	0
<b>Importer</b>		0	2
<b>Mixed (Export &amp; Import)</b>		0	0

Indicator I.3h – Person hours of USG-supported training completed in trade and investment (EG 2-1) are collected through daily participant training sign-in sheets and completed agendas. Only those participants who have completed at least 70 percent of the training are included in this indicator.

Overall, good progress continued to be made towards achieving the life of the project/activity target. To date, nearly 40 percent of the participants who completed the training in trade and investment topics were women. During the period of performance, training was provided on different WTO TFA provision topics, including for the first time for ERLP including topics on Advance Rulings, Administrative Appeals, Border Agency Cooperation, and the National Trade Facilitation Committee (NTFC).

Table 39: 1.3h: Person hours of USG-supported training completed in trade and investment (EG 2-1)							
LOP TARGET	4,000	ACTUALS					
% LOP TARGET ACHIEVED	72%	FY21 Q1 TOT		FY21 Q2 TOT		FY21 Q3 TOT	
		1,308		900		676	
ACTUALS (CUM)	2,884	PERSON HOURS MALES	520	PERSON HOURS MALES	672	PERSON HOURS MALES	536
POP ACTUALS	676	PERSON HOURS FEMALES	788	PERSON HOURS FEMALES	228	PERSON HOURS FEMALES	140
TOTAL INDIVIDUALS COMPLETING	69 (42 F; 27 M)		87 (7 F; 80 M)		109 (24 F; 101 M)		
AGE OF PARTICIPANTS WHO COMPLETED THE TRAINING	15-19	0	15-19	0	15-19	0	
	20-24	0 F; 1 M	20-24	0	20-24	0	
	25-29	1 F; 2 M	25-29	0	25-29	0	
	30+	41 F; 24 M	30+	7 F; 80 M	30+	24 F; 101 M	
	NA	0	NA	0	NA	0	
TOPIC OF TRAINING	Public Budgeting for Ministry of Finance, Public/Private Dialogue for Enhancing Trade facilitation		<b>Trade:</b> Authorized Economic Operators; Post Clearance Audit; Risk Management, Risk-Based Food Controls; Risk Management; Post Clearance Audit; Customs Valuation; Customs Induction Module; Advanced Phytosanitary guidelines for risk-based food control & inspection <b>MOF:</b> Oil Revenue, Non-Oil Revenues Forecasting Model		<b>Trade:</b> Customs Advance Rulings; Administrative Appeals; Export Guidelines for products in foreign markets; Yemen AEO expansion; Risk management for YCA; Yemen Broder Agency Cooperation <b>MoF:</b> Budget management and execution, tax policy, and debt management; Implementing treasury single account reforms		
LOCATION OF TRAINING	Coral Hotel-Aden, Yemen (4) Note: One participant attended Remotely via zoom		Coral Hotel-Aden, Yemen (11) Note: Seven participants attended Remotely via zoom		Coral Hotel-Aden, Yemen (8)		



## OUTCOME 2: MACROECONOMIC FUNCTIONS OF KEY INSTITUTIONS

### IMPROVED INTERMEDIATE RESULT 2.1: SME CAPACITY STRENGTHENED

Indicator 2.1a - Number full-time equivalent (FTE) jobs created with USG assistance (Archived EG 3-9) "Jobs Created." Data is collected from ERLP partner firms, using hiring lists and analyzing which jobs are attributable to the technical assistance and training provided through the program. While initial results data became available in early FY21, it is expected that the number of jobs created will continue to increase each quarter as technical assistance and capacity-building efforts by ERLP consultants begins to have an impact on firm growth – including the creation of new jobs within each partner firm. As a result, data and evidence for the jobs created medium-term outcome indicator are collected after each Partnership Agreement ends, and therefore results should pick up at an accelerated pace in Year 2. To date, female employees filled nearly 26 percent of the jobs created by partner firms; and 59 percent of employees hired were youth. Most of the jobs were created by the health/medical sector partner firms.

Table 40: 2.1a: Number full-time equivalent (FTE) jobs created with USG assistance (Archived EG 3-9) "Jobs Created"					
LOP TARGET	1,500	ACTUALS			
% LOP TARGET ACHIEVED	25%		FY21 Q1	FY21 Q2	FY21 Q3
ACTUALS (CUM.)	374	TOTALS	41	150	183
SEX OF JOB HOLDER		MALES	22	120	135
		FEMALES	19	30	48
AGE OF JOB HOLDER		15-19	0	2 F; 4 M	2 M
		20-24	0 F; 5 M	12 F; 29 M	6 F; 38 M
		25-29	0 F; 1 M	10 F; 37 M	25 F; 53 M
		30+	2 F; 3 M	2 F; 44 M	13 F; 36 M
		N/A*	17 F; 13 M	4 F; 6 M	4 F; 6 M
SECTOR OF JOB		AG	0	34	43
		NON- AG	41	116	141
TYPE OF POSITION		PERMANENT	41	150	183
		SEASONAL	0	0	0
		OTHER	0	0	0

\*Some jobholders are reluctant to provide their age or age range.

Indicator 2.1b - USD sales of firms receiving USG-funded assistance (EG.5-1) is collected from ERLP partner firms, using financial data collection forms that are sent out to firms throughout the lifespan of the PA. Firms in Yemen are often reluctant to share their financial data, whether it is information on profits or sales values, because they are concerned about the security of their staff, families and that they themselves would be at risk (hostage-taking, theft, etc.) if the information is shared with external stakeholders. As a result, ERLP will also include monetized units sold in the sales data collected, as required.

Analysis of sales actuals compared to baseline shows an average sales increase of 29 percent for the enterprises reporting sales data due to ERLP support. Performance in Q3 was outstanding at a 59 percent increase against the baseline for the quarter for the reporting firms and considering the devaluation of the YER. Indeed, one of the partner firms (the Abu Sufian Trade Group), which had

experienced a serious setback in Q1 due to staff and management turnover, realized a large sales rebound during this period of performance as a result of ERLP SME consultant support.

<b>Table 41: 2.1b: USD sales of firms receiving USG-funded assistance (EG.5-1)</b>					
<b>LOP TARGET</b>	>10% over baseline	<b>ACTUALS</b>			
<b>% LOP ACHIEVED</b>	125%		<b>FY21 Q1</b>	<b>FY21 Q2</b>	<b>FY21 Q3</b>
<b>AVERAGE %</b>	29%	<b>TOTAL POP</b>	8%	30%	59%
<b>ACTUALS (Cum.)</b>	50.8M \$	<b>ACTUALS POP</b>	14.9M\$	19.2M\$	16.6M\$
<b>BASELINE*</b>	36.5M \$	<b>QUARTERLY BASELINE</b>	12.9M\$	13.9M\$	9.7M\$
<b>FIRMS REPORTING / QUARTER</b>			13	14	23
<b>TYPE OF ENTERPRISE</b>		<b>AG MSME</b>	3	3	6
		<b>NON-AG MSME</b>	10	11	15
<b>EXCHANGE RATE (USD:YER)</b>			1 USD = 598 YER	1 USD = 592 YER	1 USD = 857 YER

\* Baseline values are cumulative and are aggregated values from the previous year's quarter for the firms reporting sales in the current quarter.

Indicator 2.1.1a Number of private sector firms that have improved management practices or technologies because of USG assistance. ERLP continues to utilize an innovative data collection methodology piloted under the predecessor activity that includes evidence from technical consultant reports, MEL verification visits to SMEs, photographic evidence, and feedback from firms verifying the application of the management practices and/or technologies promoted through the program. Similar to the medium-term outcome indicator 2.1a above, results should pick up at an accelerated pace in Year 2.

<b>Table 41: 2.1c: Number of private sector firms that have improved management practices or technologies because of USG assistance</b>				
<b>LOP TARGET</b>	80	<b>ACTUALS</b>		
<b>% ACHIEVED</b>	20%		<b>FY21 Q2</b>	<b>FY21 Q3</b>
<b>ACTUALS</b>	16	<b>TOTAL POP</b>	9	7
<b>TYPE OF ENTERPRISES</b>		<b>AG MSME</b>	2	3
		<b>Non-AG MSME</b>	5	4
<b>AGRICULTURE SUB-COMPONENT</b>		<b>LIVELIHOOD VC</b>	1	0
		<b>FISHERIES VC</b>	1	0
<b>TYPE OF TECHNOLOGY OR MANAGEMENT PRACTICE APPLIED BY PARTNER FIRMS</b>		<b>STRATEGIC MANAGEMENT</b>	3	0
		<b>QUALITY &amp; CERTIFICATION</b>	2	1
		<b>SOFT SKILLS TRAINING</b>	0	0
		<b>PRODUCTIVITY ENHANCEMENT</b>	2	1
		<b>MARKETING/OUTREACH</b>	2	2

**Table 42: 2.1.1a Number of private sector firms that have improved management practices or technologies as a result of USG assistance**

LOP TARGET	80	ACTUALS		
% ACHIEVED	20%		FY21 Q2	FY21 Q3
		ICT	0	1
		HR MANAGEMENT	0	2
		OTHER	0	0

Indicator 2.1.1b - Number of firms receiving USG-funded technical assistance for improving business performance (EG 5.2-1) is collected through partnership agreements (PA) signed with each targeted firm and through partnerships with for-profit associations, microenterprises, and entrepreneurs. During the period of performance, an additional 41 agreements were approved with a total commitment to add 150 FTE jobs – significantly exceeding the LOP target. Also, during the quarter, the sub-target for women-owned firms was slightly exceeded; including mixed ownership (where both males and females own the firm) and women entrepreneurs in coastal and fishing sectors. As a result, the target for women-owned has also been significantly exceeded.

**Table 43: 2.1.1b: Number of firms receiving USG-funded technical assistance for improving business performance (EG 5.2-1)**

LOP TARGET	100 (30 women-owned)	ACTUALS			
% LOP TARGET ACHIEVED	196% (+107% of women-owned target)		FY21 Q1	FY21 Q2	FY21 Q3
		TOTAL POP	23	132	41
ACTUALS (CUM.)	196	WOMEN-OWNED FIRMS	0	68 <sup>2</sup>	32
SME SUPPORT SUB-COMPONENT		JOB CREATION	16	10	5
		WORKFORCE DEVELOPMENT	7	30	4
		FISHERIES INTERVENTION	0	92	32
SECTOR/INDUSTRY		FISHERIES	1	93	32
		OTHER AG	2	1	4
		NON-AGRO	20	38	5
LOCATION OF FIRM		ADEN	19	23	22
		AL MUKALAH	4	109	19

Indicator 2.1.2a – Number of individuals with new or better employment following completion of USG-assisted workforce development programs (Archived EG 6-1): Data is collected from workforce

<sup>2</sup> Based on the business context in Yemen, some firms have mixed ownership (both male and female) and will therefore be included as women-owned firms. Of these, 61 are female entrepreneurs, and two firms have mixed ownership (male and female).

development partner firms and other targeted entities (e.g., schools) using their official hiring lists and then cross-walking that data to pre-employment or job-skills sign-in sheets. Only when there was a match that proved that the new employee participated in the pre-employment training was the job seeker counted for this indicator. As of this reporting period, ERLP is making good progress towards the LOP target. Approximately 50 percent of the job seekers who found employment through ERLP were women – 17 percent of whom were participants in the Coastal women Skills Development training. Nearly 50 percent of successful job seekers were youth. Over 71 percent of the job seekers have found employment in the Health Sector because of ERLP support.

<b>Table 44: 2.1.2a: Number of individuals with new or better employment following completion of USG-assisted workforce development programs (Archived EG 6-1)</b>					
<b>LOP TARGET</b>	1,500	<b>ACTUALS</b>			
<b>% LOP TARGET ACHIEVED</b>	37%		<b>FY21 Q1</b>	<b>FY21 Q2</b>	<b>FY21 Q3</b>
<b>ACTUALS (CUM.)</b>	549	<b>TOTAL POP</b>	146	314	89
<b>SEX OF JOB HOLDER</b>	<b>MALES</b>	93	171	13	
	<b>FEMALES</b>	53	143	76	
<b>AGE OF JOB HOLDER</b>	<b>15-19</b>	0 F; 10 M	3 F; 2 M	1 F	
	<b>20-24</b>	9F; 21M	30 F; 18 M	11 F; 1 M	
	<b>25-29</b>	13 F; 25M	51 F; 83 M	17 F; 4 M	
	<b>30+</b>	13 F; 20 M	52 F; 65 M	43 F; 8 M	
	<b>N/A*</b>	18 F; 17 M	7 F; 2 M	3 F	
<b>SECTOR OF JOB</b>	<b>AG</b>	7	46	31	
	<b>NON- AG</b>	139	268	58	

\*Some jobholders are reluctant to provide their age or age range.

Indicator 2.1.2c – Percent of individuals who complete USG-assisted workforce development programs (EG 6-3). This indicator focused on pre-employment training to support the recruitment needs of targeted partner firms. Data for this indicator is collected from daily sign-in sheets. During the period of performance, the ERLP team conducted a total of four training events on topics such as Improving Teaching Skills for a School in Al Mukallah and three Training events on Tailoring and Sewing for factories in both Aden and Al Mukallah Regions. Of the grand total of 654 participants (cumulative) who attended workforce development training sessions, 89 percent completed the course work, out of which 45 percent were women.

<b>Table 44: 2.1.2c: Percent of individuals who complete USG-assisted workforce development programs (EG 6-3)</b>						
<b>LOP TARGET</b>	70%	<b>ACTUALS</b>				
<b>% LOP TARGET ACHIEVED</b>	139%		<b>FY20 Q4</b>	<b>FY21 Q1</b>	<b>FY21 Q2</b>	<b>FY21 Q3</b>
<b>AVERAGE %</b>	89%					
<b>ACTUALS (POP)</b>	97%					
<b>% COMPLETED</b>	<b>TOTAL</b>	73%	97%	88%	97%	
	<b>% MALES</b>	69%	96%	83%	0%	
	<b>% FEMALES</b>	78%	100%	94%	97%	

**Table 45: 2.1.2c: Percent of individuals who complete USG-assisted workforce development programs (EG 6-14)**

# PARTICIPANTS	COMPLETED	78	65	447	64
	ATTENDED	107	67	513	66
SEX OF PARTICIPANTS WHO COMPLETED THE TRAINING	# MALES	43	48	270	0
	# FEMALES	35	17	177	64
AGE OF PARTICIPANTS WHO COMPLETED THE TRAINING	15-19	0	0 F; 7 M	0 F; 1 M	0
	20-24	6 F; 9 M	6 F; 12 M	15 F; 18 M	9 F
	25-29	10 F; 7 M	6 F; 20 M	49 F; 96 M	11 F
	30+	11 F; 15 M	5 F; 9 M	109 F; 136 M	44 F
	NA	8 F; 12 M	0	4 F; 19 M	0

Indicator: 2.1.3.a: Total number of clients benefiting from financial services provided through USG-assisted financial intermediaries, including non-financial institutions or actors (EG.4.2-1). Data for this key Access to Finance indicator is collected directly from partner financial institutions. As of this period of performance, ERLP has significantly exceeded the LOP target due to extending the targeted FI partners from a focus on the commercial banks to those financial institutions that focus on small and medium-sized enterprises as key clients.

During the last two-quarters, ERLP has provided partner financial institutions a credit application training program to manage risks better and establish internal SME lending units. As a result, the number of loans disbursed to small and medium enterprises has increased dramatically. Analysis of those banks that report client data by sex of recipient finds that approximately 30 percent of the loan recipients are female.

LOP TARGET		2,500	ACTUALS				
% LOP TARGET ACHIEVED		141%	FY20 Q4	FY21 Q1	FY21 Q2	FY21 Q3	
ACTUALS (CUM.)		3,537	TOTAL POP	342	1,055	1,027	1,113
CLIENTS TOTALS BY FINANCIAL INSTITUTION		TADHAMON BANK	178	477	510	459	
		AL AMAL MICROFINANCE BANK (AMB)	164	578	99	231	
		AL ITTIHAD MICROFINANCE BANK	0	0	384	331	
		YEMEN COMMERCIAL BANK (YKB)	0	0	34	12	
		YEMEN INTERNATIONAL BANK (IBY)	0	0	0	80	
CLIENT TOTALS BY SECTOR		OTHER AGRO CLIENTS	532 (Cum)				
		AGRO FISHERIES CLIENTS	31 (Cum)				

**Table 46: 2.1.3.a: Total number of clients benefiting from financial services provided through USG-assisted financial intermediaries, including non-financial institutions or actors (EG.4.2-1)**

	<b>NON AGRO CLIENTS</b>	2,974 (Cum)
<b>CLIENT TOTALS BY GENDER</b>	<b>MALE</b>	2,439 (Cum)
	<b>FEMALE</b>	1,050 (Cum)
	<b>NA</b>	48 (Cum)

Indicator: 2.1.3.b USD value in loans provided to SMEs. Data for this Access to Finance indicator is collected directly from partner financial institutions. Approximately 72 percent of the loans provided to SMEs were received by non-agricultural firms. Approximately 13 percent of the loan value was provided to female clients. The total value of loans provided to SMEs lags behind the number of clients (indicator 2.1.3.a above) because of the shift by partner banks towards loaning to smaller firms. Nevertheless, it is expected that the target will be reached by the end of the activity.

**Table 46: 2.1.3.b: USD value in loans provided to SMEs**

<b>LOP TARGET</b>	\$15,000,000	<b>ACTUALS</b>				
<b>% LOP TARGET ACHIEVED</b>	81%		<b>FY20 Q4</b>	<b>FY21 Q1</b>	<b>FY21 Q2</b>	<b>FY21 Q3</b>
<b>ACTUALS (CUM.)</b>	\$12,152,313	<b>TOTAL POP</b>	\$367,928	\$1,402,584	\$2,143,682	\$8,238,118
<b>LOAN TOTALS BY FINANCIAL INSTITUTION</b>	<b>TADHAMON BANK</b>		\$322,764	\$1,231,945	\$1,285,400	\$1,361,542
	<b>AL AMAL MICROFINANCE BANK (AMB)</b>		\$45,164	\$170,640	\$154,765	\$180,191
	<b>AL ITTIHAD MICROFINANCE BANK</b>		0	0	\$447,069	\$2,547,313
	<b>YEMEN COMMERCIAL BANK (YCB)**</b>		0	0	\$256,449	\$3,725,228
	<b>YEMEN INTERNATIONAL BANK (IBY)</b>		0	0	0	\$423,844
<b>LOAN TOTALS BY SECTOR</b>	<b>OTHER AGRO LOANS</b>		\$3,429,641 (Cum)			
	<b>AGRO FISHERIES LOANS</b>		\$47,045 (Cum)			
	<b>NON AGRO LOANS</b>		\$8,675,627 (Cum)			
<b>LOAN TOTALS BY GENDER OF RECIPIENTS</b>	<b>MALE</b>		\$7,114,731 (Cum)			
	<b>FEMALE</b>		\$1,053,255 (Cum)			
	<b>NA*</b>		\$3,984,327 (Cum)			
<b>EXCHANGE RATE (USD:YER)</b>			1 USD = 597 YER	1 USD = 598 YER	1 USD = 592 YER	1 USD = 600 YER***

\*Some partner financial institutions do not collect data on the sex of the firm/client.

\*\*There is a slight lag in the verification of the total loan amount for YCB for FY21 Q2; By FY21 Q3, the MEL and A2F data for YCB have been synchronized.

\*\*\*The A2F team uses the official GoY Exchange Rate that connects exceed 600YER:1USD since the partner IFIs are required to use this rate. For other financial data reported by ERLP, the data is collected from the Tadhamon International Islamic Bank, which consists of 24 branches spread over most of the Yemeni governorates and has more than 120 ATMs in the country.

## INTERMEDIATE RESULT 2.2: SUSTAINABLE LIVELIHOODS SUPPORTED

Indicator 2.2a - Number of vulnerable households benefiting directly from USG assistance is collected from daily participant sign-in sheets for individuals participating in Sustainable Livelihoods programs (including market linkages and fisheries), directly from IFI partners for those who receive loans supported by the Access to Finance sub-component, and from employment records and sign-in sheets documenting participation in the SME and WFD activities. The total number of beneficiaries will not be used as data for this indicator, as many participants belong in the same household – particularly for the Livelihoods sub-components. As a result, household ownership by the ERLP direct beneficiaries will be used as the proxy for the number of households benefiting.

The ERLP household indicator data collection efforts were launched in FY21 Q2 with the ERLP Livelihood-Fisheries-Market Linkage component by confirming household ownership during training/workshops events. Livelihood beneficiaries trained prior to Q2 have been identified, and household ownership status has been verified in Q3. As a result, the additional household data has been included in the current period of performance data totals.

Household data collection for both the SME and WFD sub-components was also initiated at the beginning of 2021. Similar to the Livelihoods beneficiaries, the SME and WFD beneficiaries prior to FY21 Q2 also had their household ownership status verified and reported in this quarter. Household data for the ERLP Access to Finance subcomponent loan beneficiaries is ongoing since every applicant is required to be a household owner to apply for a loan. To date, women-headed households comprise 54 percent of the ERLP direct beneficiaries.

<b>Table 47: Actuals for ERLP 2.2a: Number of vulnerable households benefiting directly from USG assistance</b>				
<b>LOP TARGET</b>	10,000 (3,000 Women HH)	<b>ACTUALS</b>		
<b>% LOP TARGET ACHIEVED</b>	58%		<b>FY21 Q2</b>	<b>FY21 Q3</b>
<b>ACTUALS (CUM.)</b>	5,828	<b>TOTAL POP</b>	3,013	2,815
<b>WOMEN-HEADED HOUSEHOLDS</b>			874	741
<b>A2F SUB-COMPONENT</b>	<b>LOAN RECIPIENTS</b>		2,388	1,128
<b>SME SUPPORT SUB-COMPONENT</b>	<b>JOB CREATION</b>		59	122
	<b>WORKFORCE DEVELOPMENT</b>		56	20
<b>SUSTAINABLE LIVELIHOODS SUB-COMPONENT</b>	<b>FISHERIES</b>		29	111
	<b>MARKET LINKAGES</b>		23	278
	<b>LIVELIHOODS</b>		458	1,156

Indicator 2.2b - Number of farmers and others who have applied improved technologies or management practices with USG assistance. Based on an innovative data collection methodology piloted under the ERLP predecessor activity, the MEL and Livelihoods teams continue to collect and verify the application of the improved management practices and technologies based on a sampling of beneficiary farmers,

collecting photographic evidence, and farmer feedback during field visits to collect data. This data collection process identifies farmers who are applying at least one new management practice or technology and which technologies and management practices prove to be most relevant to the farmers.

Data collection for this outcome indicator was initiated during FY21 Q2. There is a data lag for this indicator, as it takes time for farmers and others to put into practice what they have learned – and for many of the ERLP value chains, this lag includes waiting for the relevant season (e.g., planting for some new practices, cultivating for others, and harvesting for some). More actuals are expected to be collected and reported in the future quarters as the farmers and others finish ERLP training and begin to apply what they've learned in practice. Data collected during this period of performance demonstrates that nearly 60 farmers and others have applied improved technologies and management practices. Farmers in the livestock value chain (with 54 percent of the herders reporting) and the honey value chain (with 46 percent reporting) have been applying what they have learned through the ERLP livelihoods training – both value chains are less seasonally bound compared to the other targeted value chains. Progress should escalate as the other value chains are activated and as farmers are able to put into what they've learned from ERLP consultants and livelihoods experts. As a result, it is expected that the LOP target will be either met or exceeded by the end of Year 2.

<b>Table 48: Actuals for ERLP 2.2.b: Number of farmers and others who have applied improved technologies or management practices with USG assistance (Archived EG 3.2-17)</b>				
<b>LOP TARGET</b>	1,800	<b>ACTUALS</b>		
<b>LOP % ACHIEVED</b>	7%		<b>FY21 Q2</b>	<b>FY21 Q3</b>
<b>ACTUALS (CUM.)</b>	123	<b>TOTAL POP</b>	64	59
<b>SEX OF FARMERS AND OTHERS</b>	<b>MALE</b>	50	41	
	<b>FEMALE</b>	14	18	
<b>NUMBER OF MANAGEMENT PRACTICES / TECHNOLOGIES APPLIED</b>	<b>CROP GENETICS</b>	4	0	
	<b>CULTURAL PRACTICES</b>	17	17	
	<b>LIVESTOCK MANAGEMENT</b>	19	42	
	<b>PEST AND DISEASE MANAGEMENT</b>	1	0	
	<b>SOIL-RELATED FERTILITY &amp; CONSERVATION</b>	13	0	
	<b>IRRIGATION</b>	7	0	
	<b>AGRICULTURE WATER MANAGEMENT (NON-IRRIGATION-BASED)</b>	2	0	
	<b>MARKETING AND DISTRIBUTION</b>	10	27	
	<b>POST-HARVEST HANDLING &amp; STORAGE</b>	12	27	
<b>VALUE-ADDED PROCESSING</b>	0	0		

Indicator 2.2c - Value of annual sales of producers and firms receiving USG assistance (EG.3.2-26) is collected from ERLP livelihoods partners, using financial data collection forms that are sent out to firms throughout the lifespan of the program. Producers and firms in Yemen are reluctant to share their financial data, whether it is information on profits or sales values, because they are concerned that the



security of their staff, families, and themselves would be at risk (hostage-taking, theft, etc.) if the information is shared with external stakeholders. As a result, ERLP includes monetized units sold in the sales data. During the period of performance, ERLP collected sales data from 65 SMEs, micro-enterprises, and entrepreneurs – in Al Mukalla and Aden – for an off-trend sales decrease of 45 percent compared to the same quarter in 2020. This is mainly due to an outlier impact triggered by electricity outage in 11 ice plant operators during the period of performance, which resulted in a sales decrease of 64 percent for those firms. Sales increases have been verified for the 54 remaining microenterprises and entrepreneurs. Overall, sales increased for ERLP partner-enterprises/entrepreneurs by 127 percent across all reporting periods.

<b>Table 49: Actuals for ERLP 2.2c: USD Value of annual sales of producers and firms receiving USG assistance (EG.3.2-26)</b>					
<b>LOP TARGET</b>	>20% over baseline	<b>ACTUALS</b>			
<b>% LOP ACHIEVED</b>	106%		<b>FY21 Q1</b>	<b>FY21 Q2</b>	<b>FY21 Q3</b>
<b>AVERAGE %</b>	127%	<b>TOTAL POP</b>	40%	51%	(55%)
<b>ACTUALS (Cum.)</b>	479.5K \$	<b>QUARTELY ACTUAL</b>	\$1.4K	\$428K	\$50.4K
<b>BASELINE*</b>	376.3K \$	<b>QUARTERLY BASELINE</b>	\$0	\$284.4K	\$91.8K
<b>FIRMS REPORTING / QUARTER</b>			6	42	65
<b>TYPE OF ENTERPRISE</b>		<b>AG MSME</b>	6	42	65
		<b>NON-AG MSME</b>	0	0	0
<b>EXCHANGE RATE (USD:YER)</b>			1 USD = 598 YER	1 USD = 592 YER	1 USD =857 YER

\* Baseline values will be cumulative, as it aggregates the baseline values from the previous year's quarter for the firms reporting sales in the current quarter.

Indicator 2.2d - Number of individuals who have received USG-supported short-term agricultural sector productivity or food security training (EG 3.2-1): Data for this indicator is collected through daily sign-in sheets. Around 36 percent of participants in the livelihoods training during the period of performance were female farmers. The greatest female participation occurred in the fisheries, livestock, coffee, and honey value chains (100 percent of the fisheries, 74 percent of the livestock, 30 percent of the coffee, and 29 percent of the honey training participants). Youth participation in the ERLP livelihoods training across all the relevant agricultural value chains is 27 percent.

<b>Table 49: Actuals for ERLP 2.2c: USD Value of annual sales of producers and firms receiving USG assistance (EG.3.2-26)</b>						
<b>LOP TARGET</b>	7,500	<b>ACTUALS</b>				
<b>LOP % ACHIEVED</b>	45%	<b>FY20 Q4 TOT</b>	<b>FY21 Q1 TOT</b>	<b>FY21 Q2 TOT</b>	<b>FY21 Q3 TOT</b>	
<b>ACTUALS (CUM.)</b>	3,364	487	1,311	781	785	
<b>SEX OF PARTICIPANTS</b>		<b>MALE</b>	245	998	479	438
		<b>FEMALE</b>	242	313	302	347

**Table 50: Actuals for ERLP 2.2.d: Number of individuals who have received USG-supported short-term agricultural sector productivity or food security training (Archived EG 3.2-1)**

VALUE CHAIN (EVENTS)	Tomato (5); Coffee (5); Honey (5); Fish	Tomato (4); Coffee (12); Honey (10); Livestock (16); Fish (6); Onion	Tomato (3); Honey (5); Livestock (11); Fish (5); Onion (4)	Tomato (3); Honey (5); Coffee (6); Livestock (11); Fish (1); Onion (3); Watermelon (1)
LOCATION OF TRAINING	Khanfir-Abyan (5); Saum- Hadramout (5); Mawaset-Taiz (5); Al Sheher- Hadramout	Khanfir-Abyan (4); Hraydah- Hadhramout (5); Radfan – Lahij (5); Aden Gulf Co. - Aden (2); Buriqah- Aden; Coral Hotel - Aden; Mukallah City - Al Mukallah (2); Alrayda Wa Qusayer - Hadhramout (6); DesAlsharqya - Hadhramout (5); Tuban - Lahij (5); Al-Madarribah – Lahj; Al-Mawasit – Taiz (8); Al Misrakh – Taiz (3); Al Ma'afer-Taiz	Khanfir-Abyan; Tuban-Lahj (2); Shibam - Hadramout (5); Khormeskar - Aden; Seyhout - Mahra; Des- Alsharqiya - Hadramout; Al Mukallah - Hadramout; Kaizen-Centre; Alsheher - Hadramout (5); Alwadea - Abyan (4); Sabr - Tuban- Lahj (2); Al- Madaribah - Lahj (4)	Khanfir-Abyan (3); Shibam - Hadramout (5); Al Mawaset - Taiz (3); Shamayteen - Taiz (3); Al Mukalla - Hadramout; Khormasker - Aden; Al Wadea - Abyan; Tuban - Lahj (7); Ghayel Bawazeer - Hadramout (4); Al Madaribah-Lahj (3)

### CROSS-CUTTING PERFORMANCE

Indicator C1 – Percentage of female participants in US-assisted programs designed to increase access to productive economic resources (GNDR-2). This indicator aggregates participant data across all sub-components. During the period of performance, the participation of women was higher in the ERLP MSME activities and in the Livelihood activities. To date, the overall percentage of female participants is exceeding the LOP target.

LOP TARGET	30%	ACTUALS							
% LOP TARGET ACHIEVED	123%	FY20 Q4		FY21 Q1		FY21 Q2		FY21 Q3	
AVERAGE %	38%	TOTAL	48%	TOTAL	24%	TOTAL	38%	TOTAL	39%
COMPONENTS / SUB-COMPONENTS	CBY/MOF	N/A		61%		47%		32%	
	AG	50%		24%		39%		44%	
	ACCESS TO FINANCE SMEs	N/A		N/A		N/A		32%	
	ACCESS TO FINANCE LOANS	N/A		22%		39%		31%	

**Table 51: Actuals for ERLP CI: Percentage of female participants in US-assisted programs designed to increase access to productive economic resources (GNDR-2)**

LOP TARGET	30%	ACTUALS			
TRADE	N/A	12%	8%	14%	
MSME OWNERSHIP	N/A	0%	55%	83%	
JOB'S CREATED/IMPROVED	N/A	40%	22%	26%	
WORKFORCE DEVELOPMENT	42%	25%	40%	100%	

## USAID THIRD PARTY MONITORING OF ERLP

During the period of performance, USAID/YCLE completed three third-party monitoring remote visits to ERLP activities, for which it shared two reports with ERLP (and shared one report in mid-July).

**Table 52: January – March 2021 Third-Party Monitoring**

ERLP Component	ERLP Event	TPM Visit Date	Date Shared With ERLP	Location of Monitoring
SME- Access to finance	Invoice Financing Training for the Yemen commercial bank	June 16-17, 2021	July 13, 2021	Virtual/Remote
Livelihood	Honey Value Chain Training for the Shibam Honey Cluster	May 25-28, 2021	June 28, 2021	Hadhramaut Governorate / Shibam District
SME- Access to finance	Yemen ERLP Credit Risk Management Training for Itihad Microfinance	April 28, 2021	June 06, 2021	Virtual/Remote

ERLP continued active collaboration with YCLE during the period of performance, including activity planning and logistics, "Means of Verification" data collection tool reviews, MEL and technical teams' meetings, TPM and remote visit preparation, report submission, and debriefs. Debriefs have been attended by USAID/Frankfurt and other USAID Program Office staff and by USAID/Yemen and the YCLE and ERLP staff.

## CONCLUSION

During the period of performance, a total of 17 indicators have been reported to USAID (or 68 percent of all proposed ERLP indicators). Overall, ERLP has made substantial progress during the performance period and is on course to exceed some indicators.

## PERFORMANCE INDICATOR TRACKING TABLE

The ERLP MEL System maintains a performance indicator tracking table (PITT) to support regular updating of the indicator values and for analysis and reporting. The ERLP PITT includes baseline values and dates, targets, and actual indicator values for all performance indicators. To summarize LOP performance, the ERLP MEL team has added a short note explaining the performance data trends.

ERLP Performance Indicator	Baseline		FY2020	FY2021				Cum. Total	Progress to Target	LOP Target	
	Date	Value	Q4 Actual	Q1 Actual	Q2 Actual	Q3 Actual	Q4 Actual				
<b>ERLP Activity Objective: Macro &amp; Micro Economic Conditions Improved in Yemen</b>											
<b>Outcome 1: Macroeconomic Functions of Key Institutions Improved</b>											
1.a	# of laws, policies, or regulations formally proposed, adopted, or implemented as supported by USG assistance	July-20	0	N/A	140 points	210 points	60 points		410 points	82%	5 (500 points)
Notes: Good progress towards the LOP target continues during this period of performance, with three policies/regulations/decrees fully adopted by counterpart GoY entities.											
<b>Intermediate Result 1.3: Trade Facilitation Policy Development and Implementation Strengthened</b>											
1.3f	WTO Trade Facilitation Agreement provisions, recognized as substantive improvements and specified in conjunction with USAID, adopted (linked to EG 2.1-1)	July-20	0	N/A	0	7	4		11	61%	18
Notes: ERLP continues to make good progress towards the LOP target, supporting an additional four WTO TFA provisions during the reporting period.											
1.3g	# of new Authorized Economic Operators (AEOs) certified	July-20	3	N/A	0	0	2		2	10%	20
Notes: This is the first reporting period for this indicator – evidence of additional AEO certification will be collected throughout ERLP implementation. As a result, the LOP target is expected to be met.											
1.3h	Person hours of USG-supported training completed in trade and investment (EG 2-1)	July-20	0	N/A	1,308	900	676		2,884	72%	4,000
					788 W	228 W	137 W				
Notes: ERLP is making good progress towards the LOP target.											
<b>Outcome 2: Microeconomic Conditions Improved</b>											
<b>Intermediate Result 2.1: SME Capacity Strengthened</b>											
2.1a	# full-time equivalent (FTE) jobs	July-20	0	0	41	150	183		374	25%	1,500

ERLP Performance Indicator		Baseline		FY2020	FY2021				Cum. Total	Progress to Target	LOP Target
		Date	Value	Q4 Actual	Q1 Actual	Q2 Actual	Q3 Actual	Q4 Actual			
	created with USG assistance (Archived EG 3-9) "Jobs Created"				19 W	30 W	48 W				
Notes: There is typically a 2–4-month lag in seeing the impact on job creation after the intervention begins; nonetheless, verified data demonstrates that ERLP continues to make early progress towards achievement of the LOP target.											
2.1b	USD [value of] sales of firms receiving USG-funded assistance (EG.5-1)	See note*	36.1 M	N/A	13.9 M	17.8 M	14.9 M		46.6 M	125%	>10% over baseline
Notes: ERLP continues to significantly exceed the LOP target.											
2.1.1a	# of private sector firms that have improved management practices or technologies as a result of USG assistance (EG.5.2-2)	July-20	0	N/A	N/A	9	7		16	20%	80
Notes: There is a lag between the provision of technical assistance and the verified application of the results of the technical assistance. Nevertheless, ERLP is making early progress towards the LOP target and expects to meet or exceed this target by the end of Year 2.											
2.1.1b	# of firms receiving USG-funded technical assistance for improving business performance (EG 5.2-1)	July-20	0	N/A	23	132	41		196	196%	100
					0 W	68 W	32 W		100 W	333%	30 W
Notes: ERLP has exceeded both the overall LOP target and the women-owned firm target as a result of adding microenterprises and entrepreneurs to the targeted small- and medium-sized enterprise beneficiaries.											
2.1.2a	# of individuals with new or better employment following completion of USG-assisted workforce development programs (Archived EG.6.1)	July-20	0	0	146	314	89		549	37%	1,500
					53 W	143 W	76 W		272 W	45% W	600 W
Notes: Steady progress towards the ERLP LOP targets continues to be made.											
2.1.2c	% of individuals who complete USG-assisted workforce development	July-20	0	73%	97%	88%	97%		89%	123%	70%
				78% W	100% W	94% W	97% W				

ERLP Performance Indicator		Baseline		FY2020	FY2021				Cum. Total	Progress to Target	LOP Target
		Date	Value	Q4 Actual	Q1 Actual	Q2 Actual	Q3 Actual	Q4 Actual			
	programs (EG 6-14)										
Notes: ERLP continues to exceed the LOP target.											
2.1.3a	# of clients benefiting from financial services provided through USG-assisted financial intermediaries, including non-financial institutions or actors (EG.4.2-1)	July-20	0	342	1,055	1,027	1,113		3,537	141%	2,500
				77 W	312 W	397 W	264 W		1,050 W	124% W	850 W
Notes: Both the overall LOP target and the sub-target for female clients have been exceeded, as of this period of performance.											
2.1.3b	USD value in loans provided to SMEs	July-20	0	368k	1.4M	2.1M	8.2M		12.2M	81%	15M
				72K	201k W	386k W	393k W		1.1M W	21% W	5M W
Notes: ERLP is making steady progress towards the achievement of the LOP targets, despite re-focusing partner banks on providing smaller loan packages to microenterprises, small firms, and other nontraditional loan recipients.											
<b>Intermediate Result 2.2: Sustainable Livelihoods Supported</b>											
2.2a	# of vulnerable households benefiting directly from USG assistance	July-20	0	N/A	N/A	3,013	2,815		5,828	58%	10,000
						874 W	741 W		1615 W	54% W	3,000 W
Notes: Overall, ERLP is making good progress towards the LOP targets.											
2.2b	# of farmers and others who have applied improved technologies or mngmt practices with USG assistance	July-20	0	N/A	N/A	64	59		123	7%	1,800
						14 W	18 W		32 W	5%	600 W
Notes: There is a data lag for this indicator, as farmers and other participants in the livelihoods value chains need to align the new practices and technologies that they've learned through ERLP to seasonal farming practice. To date, the data has been collected from honey producers, and livestock value chain participants as those farmers are not as seasonally constrained. Nevertheless, ERLP is making early, and steady progress towards the LOP targets as evidence of the application of the knowledge/skills gained will be available for most farmers/others in Year 2.											
2.2c	Value [USD] of annual sales of producers and firms receiving USG assistance (EG.3.2-26)	See note*	376 k	N/A	1.4 K	428 k	50.5 k		479.5 k	106%	>20% over baseline
Notes: On average, sales by firms in the fisheries sub-component have exceeded the LOP target.											

ERLP Performance Indicator		Baseline		FY2020	FY2021					Cum. Total	Progress to Target	LOP Target
		Date	Value	Q4 Actual	Q1 Actual	Q2 Actual	Q3 Actual	Q4 Actual				
2.2d	# of individuals who have received USG-supported short-term agricultural sector productivity or food security training (EG 3.2-1)	July-20	0	487	1,311	781	785		3,364	45%	7,500	
				242 W	314 W	302 W	347 W					
Notes: ERLP has exceeded the FY21 annual target (2,500) and is making steady progress with the LOP target.												
CI	% of female participants in the U.S. assisted programs designed to increase access to productive economic resources (GNDR-2)	July-20	0	48%	24%	38%	39%		37%	124%	30%	
Notes: The LOP target for this indicator continues to be exceeded.												

\*Baseline is rolling as new partner firms are added; for quarterly reporting, the quarterly baseline will be for the calendar year prior to ERLP assistance so that the quarterly sales can be compared accurately.

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## **SUCCESS STORIES**

- Annex 23 - ERLP Success Stories (April – June 2021)



# ECONOMIC RECOVERY AND LIVELIHOODS PROGRAM (ERLP) IN YEMEN

## FX RESERVES INVESTMENT MANAGEMENT POLICY PROTOTYPE (ENGLISH AND ARABIC)

### ANNEX I

July 2021

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## I. Introduction

The prototype of the Reserves Investment Management Policies and Guidelines is designed to cover the general policies and procedures linked to reserves management. This prototype was developed over the course of QII using BIS best practice reserves management and some elements of the prototype developed over the course of QI. It further incorporated elements of the current reserves management policy of the CBY, which was prepared in conjunction with the World Bank for the CBY in Sanaa.

BIS best practice for reserves management incorporates an overview of trends and challenges for reserves management globally, relying on data covering 80% of reserves under management by central banks and monetary authorities. Some of the *trends* documented include **i)** an increased focus on returns, **ii)** a more structured approach to decision making, **iii)** strengthened risk management (both for financial risks and operational risks), and **iv)** an enhanced requirement for public disclosure. Some of the *challenges* highlighted include **i)** balancing returns versus risks, **ii)** the choice of a benchmark currency, and **iii)** determining the extent of public disclosure.

According to WB and IMF data, global central bank reserves are estimated at USD 11.0 trillion as of 2020, a more than sixfold increase since the Asian Financial Crisis (Figure 1), while holdings of non-traditional reserve currencies such as the AUD and CAD increased (Figure 2).

**Figure 1: Official World Foreign Exchange Reserve Holdings**



**Figure 2:**



Source: IMF, WB. IMF WP/18/31, February 2018.

### i) Increased focus on returns

Liquidity and capital preservation are the primary objectives of best practice reserves management. Nonetheless, the secondary objective of optimizing returns has recently become more important. This is reflected in best practice reserves management in the following ways:

#### a) Asset Classes

Central banks broadened the range of asset classes they can invest in and shifted portfolio composition to include a slightly higher allocation to riskier assets. Traditionally, the main instruments were highly liquid, safe assets such as bank deposits, Treasury bills, and highly rated government and supranational bonds. The riskier assets that increasingly began to appear in central bank reserve portfolios feature a greater appetite for market, credit, and, to a smaller extent, market liquidity risks. Table I presents a survey of these asset classes and instruments. Following the Global Financial Crisis (GFC) of 2008 (and indeed, for some central banks such as the Japanese Central Bank since the 1990s), other much riskier asset classes such as corporate bonds, listed equities, and real estate featured as asset classes for allocation of reserves — all as a tool to inject liquidity into the market in deflationary environments caused by crises. Finally, at large, less reliance on gold has been a perceived trend and alongside an increase in the use of derivatives, predominantly forwards and currency swaps for overlay strategies and tactical allocations. Figure 3 and Table I list approved holdings of different investable asset classes, and the percentage of central banks surveyed that use them.

**Figure 3: Approved Investable Classes by Central Bank Reserves Managers Globally**

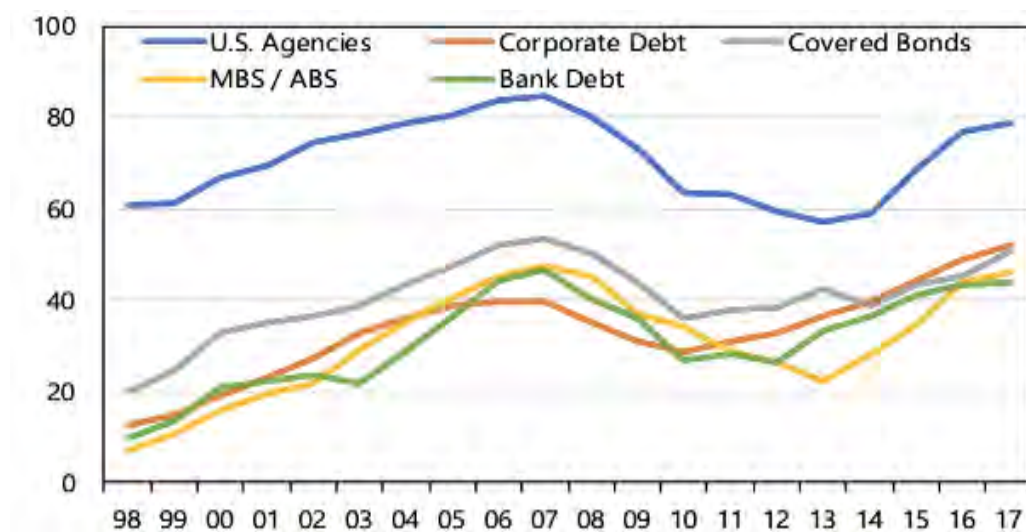
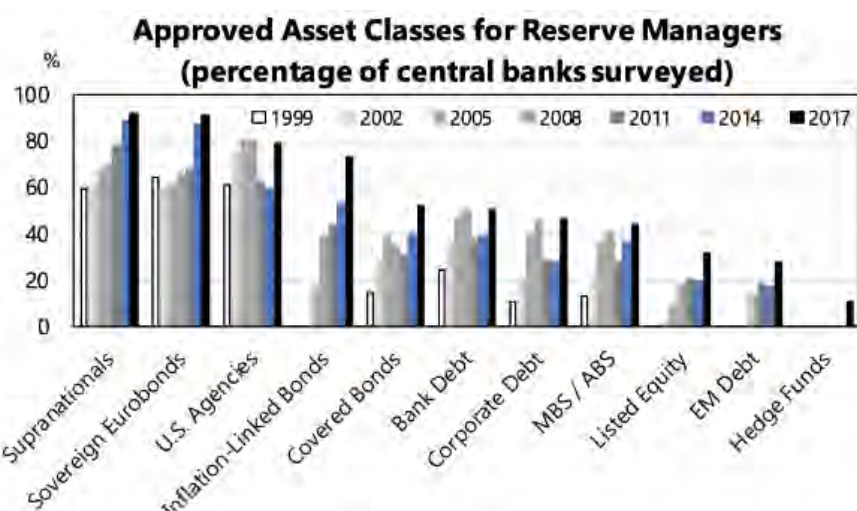


Figure 4: Approved Asset Classes for Reserve Managers



Source: UBS Reserves Manager Survey. IMF WP/18/31, February 2018

Table 1: Investable Asset Classes and Instruments (% of responding central banks)

Asset class or instrument	2002	2004	2005	2007 <sup>1</sup>	2007 <sup>2</sup>
Supranational bonds	*	86	*	96	*
Treasury bills	*	89	*	100	*
Bank deposits	*	94	*	96	*
Government bonds	*	80	*	100	*
Government bonds below AA	*	57	57	33	*
Agency paper	81	65	67	93	88
Mortgage-backed securities	} 37	28	25	59	} 42
Asset-backed securities		29	25	48	
Corporate bonds (investment grade)	} 23	17	21	41	35
Corporate bonds below BBB		2	4	7	2
Index-linked bonds	*	*	25	56	37
Equities	12	6	8	19	9
Hedge funds	2	2	0	4	2
Other	93	15	8	52	12 <sup>3</sup>
Derivatives	52	*	*	89	80
Gold	*	57	*	81	*
<i>Memo: number of respondents</i>	43	65	48	27	43

\* Indicates that this option was not available.

Source: BIS Survey. BIS Paper No. 40. May 2008.

#### b) Increased use of external managers

Over two-thirds of central banks surveyed by the BIS use external sources to outsource the management of anywhere from 5% to 15% of their reserves portfolio. Among their motivations are having an open channel for knowledge transfer from the professional asset manager and taking advantage of specific expertise in a particular sector or asset class and returns pick up, or portfolio diversification.

#### c) Growing tendency for reserves portfolio tranching

Two-thirds of the central banks responding to the BIS survey had segregated their reserves portfolio into at least two tranches — a liquidity tranche and an investment tranche —each tranche having a different set of investment guidelines.

#### d) The creation of Sovereign Wealth Funds

Many countries have also created separate, segregated funds altogether with a stronger mandate to focus on returns. Examples include the UAE, Norway, Singapore, Libya, Kuwait, China, Hong Kong, Singapore, Russia, Australia, Qatar, Algeria, Korea, and, most recently, Egypt. Subsequently, Yemen could perhaps consider a type of intergenerational wealth-transfer vehicle such as an oil reserve fund.

### ii) A more structured approach to decision making

This trend is characterized by more top-down decision-making, with more formal involvement of the executive at a strategic level and “vertical tiering” of the reserves management process. It also features increased functional separation of activities (“horizontal separation”). Table 2 presents a survey of best practice organizational structure and reporting lines.

**Table 2: Organizational Structure & Reporting Lines (% of responding central banks)**

	Front and back office	Front and middle office <sup>1</sup>
Separated until executive level	48	28
Separated until an intermediate level	28	36
Separated to head of department level or lower	24	36

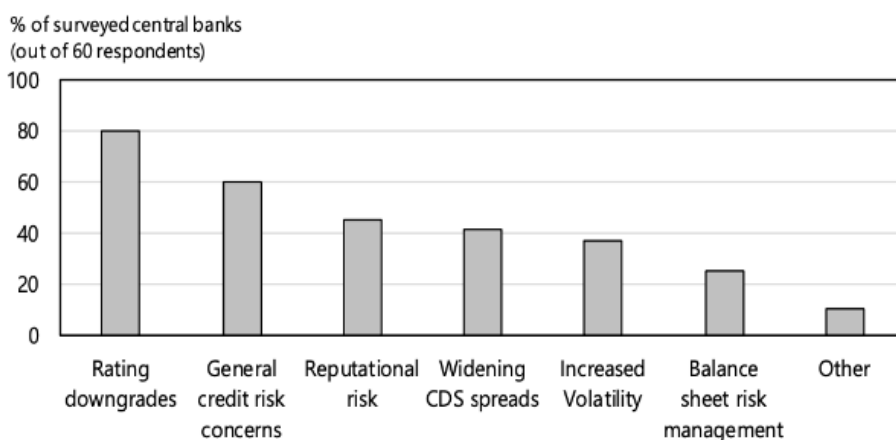
<sup>1</sup> Middle office is defined here to be the functional area responsible for performance evaluation and attribution.

Source: BIS Survey. BIS Paper No. 40. May 2008.

### iii) Strengthened risk management

The increased focus on returns and a more structured decision-making process required the strengthening of risk management at the level of financial risks (counterparty credit risk, market, and liquidity) and operational risks. Liquidity risks are usually more muted since the Strategic Asset Allocation (SAA) naturally ensures that the instruments in the investable universe can be easily traded in the market (based on indicators such as the size of the market, bid-ask spreads, trading volume, the existence of a repo market and the presence of traded credit default swaps on the name (CDS). Figure 5 presents the risk management triggers for reserves management portfolio rebalancing by world central banks in the period following the 2008 GFC.

**Figure 5: Risk Management Triggers for Reserves Portfolio Rebalancing**



Source: Murahhan and Molder, 2013. IMF WP/18/31, February 2018.

Market risks account for the largest share of the financial risk to which foreign exchange reserves are exposed. Technology and tools for measuring market risk have evolved significantly over the last two decades, with many of these tools easily monitored via platforms such as Bloomberg or Refinitiv. Yemen can easily implement these: The planned training on best practice reserves management already incorporates the need to focus on the most relevant indicators and interpretation and training on best practices for measuring market risks.

Table 3 presents the indicators and tools used by central banks globally to manage market risks.

**Table 3: Use of Market Risk Indicators & Tools (% of responding central banks)**

Scope and methodology	
Aggregated over the total portfolio	52
Measurement methods	
Value-at-risk	96
Duration analysis	89
Stress testing	71
Other	43
Back testing	50
Of which over the total portfolio	82

Source: BIS Survey. BIS Paper No. 40. May 2008.

Credit risk tolerance is very low for central banks because of the financial losses that might be incurred and the reputational costs associated with a credit event. A credit event lives on in the memory of market practitioners for a long time and casts a shadow on the credibility of an institution, whether it is a central bank or even a supranational or development institution. As more asset classes are now included in the universe of investable assets, credit risk management systems have correspondingly also been strengthened.

The indicators and tools used by central banks to manage credit risk globally are presented in Table 4.

**Table 4: Use of Credit Risk Indicators & Tools (% of responding central banks)**

<b>Credit limits based on</b>	
Credit rating	96
Balance sheet information	74
Type of counterparty	44
Size of foreign exchange reserves	44
Maturity	44
Other	19
<b>Scope of credit limits</b>	
Investments	92
Deposits	85
Derivatives	85
Reverse transactions	69
Settlement	58
<b>Concentration limits</b>	
By sector	63
By country	58

Source: BIS Survey. BIS Paper No. 40. May 2008.

Operational risk quantification and evaluation is one of the main challenges facing central banks. The presence of business continuity plans and remote disaster recovery sites that provide comprehensive backup facilities and full access to trading, settlement, and payments systems is crucial for operational risk mitigation. The presence of secondary trading facilities, often housed in existing representative offices, is another good practice.

Table 5 presents the indicators and tools used by central banks for the management of operational risk globally.

**Table 5: Use of Operational Risk Indicators & Tools (% of responding central banks)**

<b>Methodology</b>	
Event log	67
Self-assessment based on questionnaires	59
Key risk indicators	37
Other	56

Source: BIS Survey. BIS Paper No. 40. May 2008.

The following section presents the proposed prototype of the Reserves Investment Management Policies and Guidelines, which is designed to cover the general policies and procedures linked to reserves management. This prototype was presented for approval to the CBY in QIII. It was developed over the course of QII, relying on the BIS best practice reserves management summarized above as well as components of the prototype developed over the course of QI, and incorporated elements of the current reserves management policy of the CBY that was prepared in conjunction with the World Bank for the CBY in Sanaa.



## II. Reserves Management Policy Prototype

According to the 2004 *Risk Management for Central Bank Reserves*, by the BIS and ECB, the management of foreign exchange reserves is an important task undertaken by central banks. Depending on the design of exchange rate arrangements and the monetary policy requirements, foreign reserve assets may serve a variety of purposes ranging from exchange rate management to external debt management.

Hence, efficient management of foreign reserves by central banks is critical if they are to fulfill their mandates comprehensively. In particular, efficient allocation and management of foreign reserves will promote the liquidity needed to fulfill policy mandates while at the same time minimizing the costs of holding reserves. Central bank foreign reserves risk management can contribute to these objectives by managing and controlling the exposure to financial and operational risks.

In recent years, many central banks have expanded their risk control units to encompass comprehensive risk management functions, rendering them beneficially independent to some extent from the bank's risk-taking activities and supporting decisions at all stages of the foreign reserves investment process. In addition to supporting traditional control functions such as compliance monitoring, foreign reserves risk management can contribute to translating policy goals into specific and efficient strategic asset allocations that focus not only on risk but also on return.

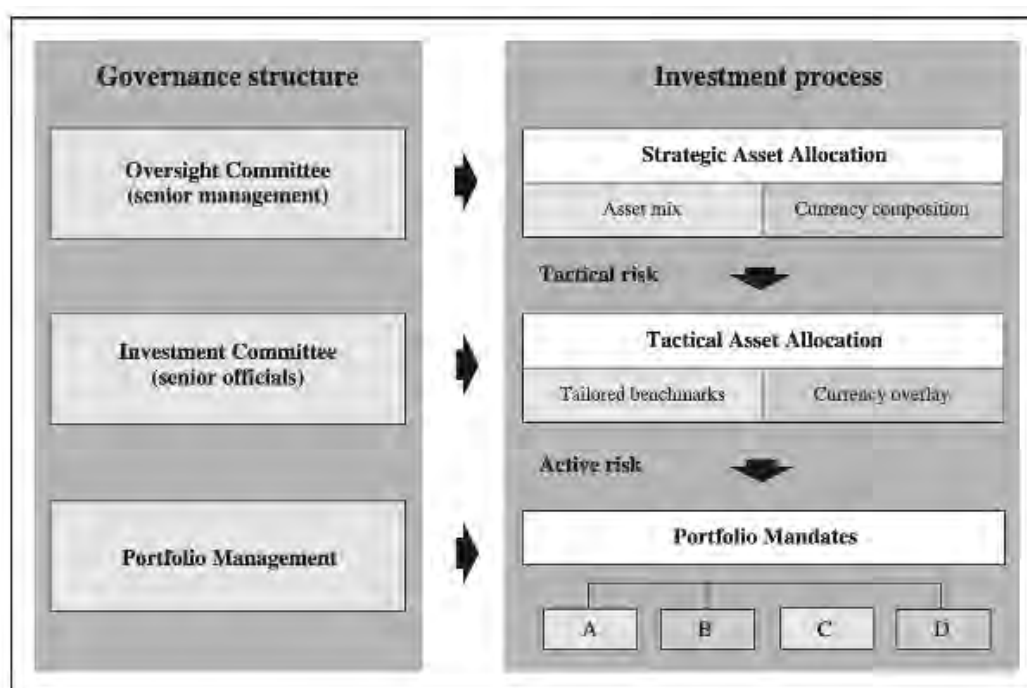
Cardon (BIS) and Coche (ECB) devised a blueprint for a strategic asset allocation framework that we believe suits the needs of Yemen very well over the coming decade as it continues to build its reserves portfolio. The importance of a sound organizational setup cannot be overemphasized. First, **(i)** a three-tier governance structure comprising an Oversight Committee, Investment Committee, and actual portfolio management units is one suggested approach to implement asset allocation decisions efficiently. Second, **(ii)** investment philosophies must be designed to translate general policy requirements into concrete portfolio return objectives and risk constraints when establishing the long-term risk-return profile. Third, **(iii)** a quantitative framework for deriving the actual asset allocation must be developed.

### **i) Three-tier governance structure**

The importance of a sound organizational setup for managing reserves efficiently cannot be overstated. In terms of an active investment style, we will argue for a three-tier governance structure in which the responsibilities for strategic, tactical asset allocation, and actual portfolio management are clearly segregated. Once in place, this framework will facilitate a disciplined implementation of asset allocation decisions and should help clarify accountability, managing risks, and promoting a risk awareness culture across the organization.

Transparency and accountability require a specified investment process in combination with a sound governance structure. Suppose the central bank decides on an active investment style. In that case, an increasingly popular practice is to have a three-tier governance structure comprising an Oversight Committee, an Investment Committee, and Portfolio Management units that are responsible for strategic and tactical asset allocation and actual portfolio management. Figure 6 illustrates this three-tier governance structure with an investment process that allows active reserves management. With a passively managed strategic asset allocation as the starting point, a tactical asset allocation is added, followed by actual portfolio mandates. *The aim of this setup is to improve the risk-return profile of the strategic benchmark by providing the necessary flexibility to take advantage of short- to medium-term investment opportunities.*

**Figure 6: Optimal Organizational Setup**



Source: Cardon and Coche. BIS and ECB, Risk Management for Central Bank Reserves, 2004.

## **ii) Design of investment philosophy and investment principles**

Investment philosophies for central banks are the means whereby policy requirements can be translated into investment principles. To derive the reserves' strategic asset allocation, general policy objectives such as the provision of liquidity, reduction of external vulnerability, or the storage of national wealth must be transformed into more specific, quantifiable return objectives and risk constraints. These objectives and constraints are to be set forth in the Statement of Investment Principles and form the basis for determining the optimal combination of reserves' expected return, liquidity (risk), and security (market and credit risk). The investment principles also define the organizational setup and establish specific provisions for tactical asset allocation, portfolio implementation, and risk management.

***In the case of Yemen, the asset and liability approach to reserves management is recommended as an investment philosophy*** as it aims to integrate the management of reserves portfolios with either the central bank's ability to bear financial risks or the country's external debts. This increasingly important approach could be considered the overriding principle for determining the objectives and constraints of reserves management. In a narrow definition, asset-liability management refers to a joint consideration of asset and liability items on the central bank's books or, more broadly, incorporates managing the country's sovereign and external debt.

In a narrow definition, the size of foreign reserves, the currency distribution, and the strategic benchmarks would be determined simultaneously in a balance sheet context, underscoring the importance of the debt management systems and data warehouse components of our workflow with the CBY.

In addition to its diversification effects within the foreign reserves, such an approach exploits the risk reduction or income enhancement potential stemming from the reserves' correlation with other balance sheet items and, furthermore, increases balance sheet efficiency.

From an asset and liability perspective, the design of investment philosophy and principles should specifically consider **the following recommended objectives**: maximizing income from the reserves based on the entity's ability to bear financial risks while either minimizing the reserves' contribution to the overall balance sheet risk or minimizing the shortfall of income from the reserves with respect to its funding.

In particular, when the institution's responsibilities encompass both reserves management and debt management, asset-liability management may be applied in a broader sense. In such a case, objectives and constraints for deriving the strategic asset allocation can be determined against the size and characteristics of foreign currency liabilities. For example, reserves management may strive to find the optimal risk-return combination in a setup where risk is measured relative to the composition of external public sector debt.

### **iii) Quantitative framework for strategic asset allocation**

The reserves' long-term risk-return profile is derived from the established investment principles. The strategic asset allocation process is determined in practice by following a **four-step process**: (1) quantification of risk tolerance and the investment horizon; (2) formation of return and risk expectations; (3) optimization; and (4) the actual selection of the strategic asset allocation. *We recommend a structured approach. This offers the advantage of being efficient while also ensuring that CBY senior management focuses on specifying preferences and policy requirements on a strategic level; it further allows operational flexibility to be maintained, so long as it is within the strict policy requirements on the strategic level, as well as the tactical flexibility required to optimize returns and mitigate risks.* The four steps of the strategic asset allocation process and our recommendations for Yemen are elaborated below.

#### **Step I: Risk tolerance and investment horizon**

As an example, a risk tolerance statement could be that expected returns on the reserves portfolio have to be maximized subject to the condition that there are no negative returns in absolute terms for any investable asset class or the portfolio as a whole. This would be a very conservative risk tolerance statement. Or, to take another example, the statement could be that only 5% of losses are allowable over a 20-year horizon — in other words, in one of every 20 years, negative returns will be tolerated so long as all portfolio constraints are observed. This would also be a conservative risk tolerance statement, but less so than the first example. ***For Yemen, we recommend the former.***

The investment horizon for the reserves' strategic asset allocation is closely linked to the objectives and constraints specified in the investment principles. If reserves are held to provide ready liquidity for financing foreign exchange policy operations, the investment horizon is related to the probability, timing, and volume of such operations (i.e., matching of these liabilities). Alternative objectives, such as the management of external debt, may require different specifications. ***For Yemen, we recommend two segregated portfolios to manage each stream of liabilities initially.***

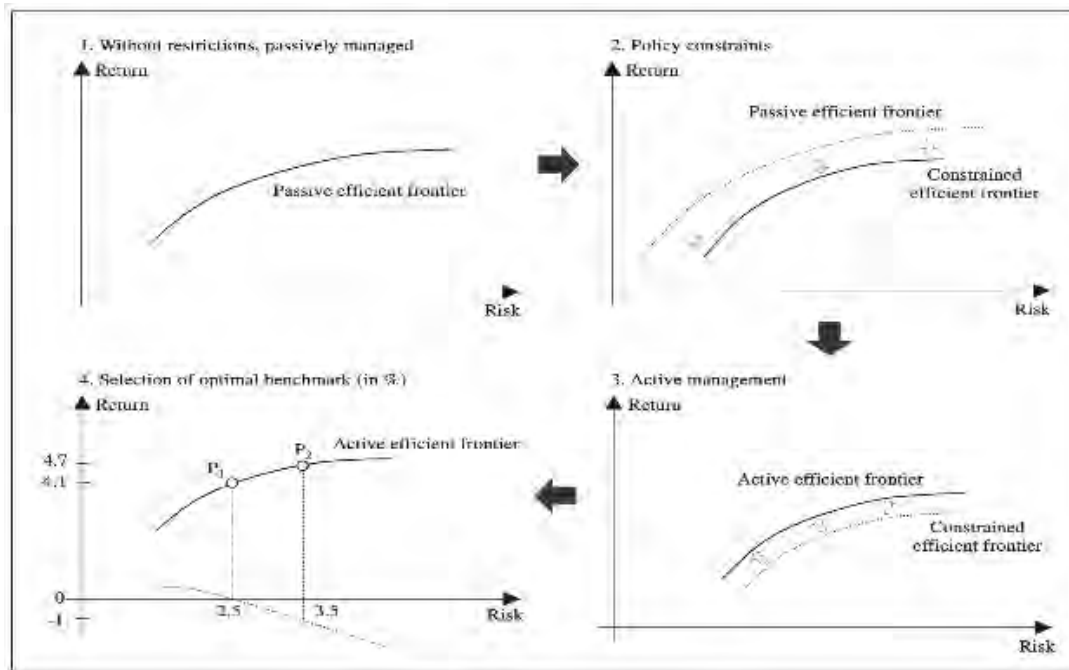
## Step 2: Formation of return and risk expectations

Historic average returns could represent a starting point for the generation of return and risk expectations, and this is what we recommend for Yemen. At a later stage, strategic asset allocation may aim to generate risk and return expectations that are forward-looking.

## Step 3: Optimization

The management of the reserves portfolio aims to maximize returns and minimize risks. That is, the derived expectations about the assets' risks and returns are transformed into an efficient frontier (the set of investment assets with return and risk combinations that outperform any other combinations of assets) that is a set of portfolios that maximize expected returns at each level of portfolio risk, as illustrated in Figure 7.

**Figure 7: Reserves Portfolio Optimization for return-risk trade-offs and policy constraints**



Source: Cardon and Coche. BIS and ECB, Risk Management for Central Bank Reserves, 2004.

## Step 4: Selection of a strategic asset allocation

The purpose of taking a quantitative approach to the investment process is not only to evaluate the portfolio optimization process but, more importantly, to provide a starting point for discussions among risk managers, portfolio managers, and senior management on why and to what extent the final strategic asset allocation should deviate from the optimization results.

For example, such discussions could introduce further policy requirements and try to balance additional constraints that are difficult to capture within a purely quantitative framework. Part of this process is an assessment of implementational aspects of the planned asset allocation from a portfolio management point of view. In the end, and set against the background of the models' limitations, policy requirements,

and portfolio management considerations, the process should result in a strategic asset allocation with an overall risk-return profile with which CBY senior management is most comfortable.

Typically, the strategic asset allocation will be expressed in terms of a percentage weighting of asset classes as well as deviation ranges. The design of the strategic benchmark and currency, and thus the implementation of the agreed asset weighting by means of market indices or notional portfolios, is addressed at the implementation level.

#### **iv) Prototype for investment policies and guidelines for reserves management in line with global best practice**

##### **1. Central Bank of Yemen Reserves Management**

An important task of the Central Bank of Yemen (CBY) is managing foreign exchange reserves to support exchange rate arrangements to eliminate multiple currency practices (MCPs) and help fulfill the requirements of monetary policy. Foreign reserve assets serve a variety of purposes ranging from exchange rate management to external debt management. Efficient management of foreign reserves is vital if the CBY is to fulfill its mandate comprehensively. In particular, efficient allocation and management of foreign reserves will promote the liquidity needed to fulfill policy mandates and, at the same time, minimize the costs of holding reserves. The CBY's foreign reserves risk management can contribute to these objectives by managing and controlling the exposure to financial and operational risks.

**Liquidity and capital preservation** are the primary objectives of the CBY's reserves management. A secondary objective of optimizing returns while minimizing risks is also important, given the scarcity of resources available to the CBY.

##### **2. Purpose of the Reserves Management Policies and Guidelines**

The purpose of the reserves management policies and guidelines is to describe the governance framework, the reserves' long-term risk-return profile, and the CBY's investment principles. The strategic asset allocation is determined in practice by quantifying risk tolerance and the investment horizon, the formation of return and risk expectations, and optimization guidelines. This structured approach offers the advantage of being efficient while also ensuring that CBY senior management focuses on specifying preferences and policy requirements on a strategic level; it further allows operational flexibility to be maintained so long as it is within the strict policy requirements on the strategic level as well as the tactical flexibility required to optimize returns and mitigate risks.

##### **3. Duties and Responsibilities**

A sound organizational setup for managing reserves efficiently for the CBY is of tantamount importance. Implementing reserves management requires a three-tier governance structure in which responsibilities for strategic, tactical asset allocation, and actual portfolio management are clearly segregated. Once in place, this framework at the CBY will facilitate a disciplined implementation of the asset allocation decisions and help clarify accountability, manage risks and promote a risk awareness culture across the CBY.

A clearly specified investment process combined with a sound governance structure is further needed to ensure transparency and accountability. The three-tier governance structure proposed for the CBY

comprises an Oversight Committee, an Investment Committee, and Portfolio Management units that are responsible for strategic and tactical asset allocation and actual portfolio management (see Figure 5 in this annex). The three-tier governance structure sets in motion an investment process that allows active reserves management: It starts with a passively managed strategic asset allocation, a tactical asset allocation is added and is followed by actual portfolio mandates. *The aim of this setup is to improve the risk-return profile of the strategic benchmark by providing the necessary flexibility for the CBY to take advantage of short- to medium-term investment opportunities.*

#### **4. Statement of Investment Goals, Objectives, and Constraints**

The goals, objectives, and constraints for deriving the strategic asset allocation of the CBY could be described in terms of three main portfolio tranches or segments.

The first portfolio tranche or segment would be dedicated to a liquidity portfolio to manage cash flow requirements over the short term, i.e., a period of up to 24 months.

The second portfolio tranche or segment could be dedicated to liabilities matching, i.e., to the size and characteristics of foreign currency liabilities. For example, CBY might determine initial goals, objectives, and constraints relative to the composition of external public sector debt and later extend these also to include private sector debt; private sector actors might need to resort to the CBY as lender of last resort in the event of a shortfall to cover their obligations. This tranche would be a medium- to long-term portfolio covering an investment horizon of two to 20 years.

The third portfolio tranche or segment, dedicated to yield enhancement, could include some allocation from oil revenues and invest in a broader spectrum of instruments than the first two portfolios. It could also serve as a core seed for establishing an intergenerational sovereign wealth fund at a later stage. This tranche would also be a medium- to the long-term portfolio but would feature fewer restrictions and a larger investment universe to achieve the primary objective of yield enhancement. Relative to other segments, this third portfolio should start out very small.

Finally, we recommend that the benchmark currency used initially should be the USD. Over time, as Yemen grows its trading partners, the appropriateness of moving to a basket of currencies could be studied (given that the currencies of its main counterparts, Saudi Arabi and the United Arab Emirates, are pegged to the USD). Additional elements to be considered in the statement of investment principles include the following:

- a. Objectives: The objective of each portfolio, tranche, or segment should be stated clearly.
  - i. Return requirements should clearly specify a target rate of return for each portfolio that is initially based on historical trends. Later, this could be based on a forward-looking analysis to determine required returns.
  - ii. Risk tolerance should be stated clearly for each portfolio tranche or segment, initially using a simple volatility metric and a duration metric that could be easily calculated from Refinitiv or Bloomberg. More sophisticated metrics could be later implemented, such as a VaR approach or a shortfall approach.
- b. Constraints: The constraints for each portfolio tranche or segment should be clearly specified, recognizing the distinct nature and characteristics of each portfolio in terms of its:
  - i. Liquidity
  - ii. Horizon
  - iii. Regulations

- iv. Unique needs.
- c. Policies: The reserves portfolio should have an overall investment policy with an overall return objective, risk tolerance level, and strategic asset allocation across the three portfolio tranches and segments. This policy would be informed by the relative size of liquidity or cash flow requirements, liabilities, and a small relative weight allocated to the yield enhancement portfolio that is less restricted. The yield enhancement portfolio could also include a small portion to be professionally managed by international asset managers to take advantage of certain asset classes or segment expertise and ensure that knowledge of best practices is continuously transferred to the CBY.

For each portfolio, a dedicated sub-investment policy should be designed that includes, specifically:

- i. Asset allocation targets
- ii. Diversification constraints
- iii. Overall risk positioning
- iv. Income generation requirements.

## **5. Schedule for Performance Review and Investment Policy Review**

Performance reviews for each sub-portfolio and the aggregate portfolio should be undertaken quarterly based on main key performance indicators (KPIs) and on an annual basis using a detailed performance attribution analysis. The annual reviews should be reported to CBY senior management and the board.

The Investment Policy and Guidelines constitute a strategic document that, once adopted and approved by the CBY Board, should be reviewed on a three-year cycle. However, the annexes to the Policy and Guidelines for tactical guidelines compliant with the strategy document should be reviewed every six months; these are to be ratified by the Investment Committee and do not need CBY Board approval.

## **6. Performance Measures and Benchmarks**

Performance measures initially could be limited to a set of KPIs for returns and risks for each portfolio segment, with more sophisticated analytics added on subsequently. The initial benchmark currency of the portfolio would be USD, although it could eventually be changed to a basket of currencies. A benchmark should be chosen for each sub-portfolio that best represents the portfolio's objective, risks, and horizon. For example, for the short-term liquidity or cash flow portfolio, the benchmark could be the two-year year UST; for the medium-term liability portfolio, the ten-year UST; and for the yield enhancement portfolio, the Barclays or JP Morgan government bond indices (i.e., global or emerging markets, depending on the asset allocation chosen for this sub-portfolio).

## **7. Guidelines for Rebalancing**

**Guidelines** for rebalancing the strategic asset allocation among all three sub-portfolios should be put in place to account for changes in the factors that affect the underlying exposure matched by each particular sub-portfolio. For each of the tranches or sub-portfolios, guidelines should also be in place that includes upside, tactical and opportunistic guidelines for rebalancing to take advantage of market opportunities. These should also include guidelines on risk management triggers for rebalancing, such as credit rating downgrades, a reduction in the liquidity of an instrument, or a systemic crisis in an asset class or jurisdiction.

Annex I

FX Reserves Investment Management Policy Prototype

Arabic

**برنامج الإنعاش الاقتصادي وسبل العيش - (ERLP) اليمن**  
هيكل سياسة إدارة استثمار احتياطات العملات الأجنبية

مارس/آذار



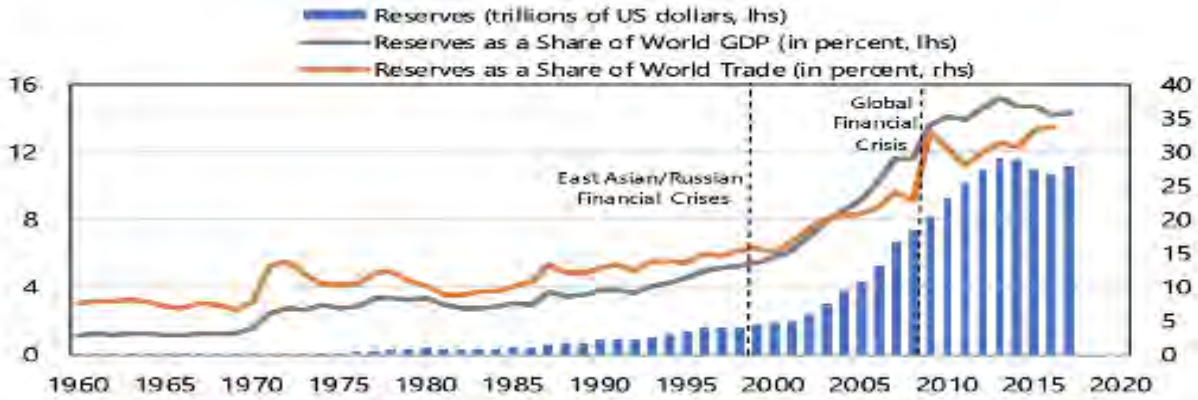
## 1. المقدمة

تم تصميم الهيكل المقترح لسياسات وإرشادات إدارة استثمارات الاحتياطيات لتشمل جميع السياسات العامة والإجراءات المرتبطة بإدارة الاحتياطيات. تم تطوير هذا الهيكل على مدار الربع الثاني استناداً إلى المعايير والممارسات العالمية لإدارة الاحتياطيات ومنها بنك التسويات الدولية BIS وصندوق النقد الدولي، بالإضافة إلى دمج عناصر سياسة إدارة الاحتياطيات الحالية للبنك المركزي اليمني، والتي تم إعدادها بالتعاون مع البنك الدولي للبنك المركزي اليمني في صنعاء في فترة سابقة.

تستند أفضل ممارسات بنك التسويات الدولية لإدارة الاحتياطيات على قواعد تتضمن الاتجاهات والتحديات التي تواجه إدارة الاحتياطيات على مستوى العالم، اعتماداً على بيانات الممارسات العالمية من قبل مدراء 80٪ من الاحتياطيات الخاضعة للإدارة من قبل البنوك المركزية والسلطات النقدية. وتتضمن بعض الاتجاهات الموثقة التي يجب أخذها في الاعتبار: (i) زيادة التركيز على العوائد، (ii) منهجية أكثر تنظيمياً لصنع القرار، (iii) وتعزيز إدارة المخاطر (لكل من المخاطر المالية والمخاطر التشغيلية)، و (vi) زيادة لمتطلبات الإفصاح العام. وتشمل بعض التحديات التي تم تسليط الضوء عليها التي يجب أخذها في الاعتبار: (i) موازنة العوائد مقابل المخاطر، (ii) اختيار العملة المرجعية، و (iii) مقدار الإفصاح العام.

وفقاً لبيانات البنك الدولي/صندوق النقد الدولي، تقدر احتياطيات البنوك المركزية العالمية بـ 11.0 تريليون دولار أمريكي اعتباراً من عام 2020، أي بزيادة تزيد عن ستة أضعاف منذ الأزمة المالية الآسيوية (الشكل 1)، في حين أن حيازات العملات الاحتياطية غير التقليدية مثل الدولار الأسترالي والدولار الكندي زادت (الشكل 2).

الشكل 1: الحيازات الرسمية لاحتياطي العملات الأجنبية في العالم



الشكل 2: حصة احتياطيات العالم من العملات الأجنبية

العملات غير التقليدية\*



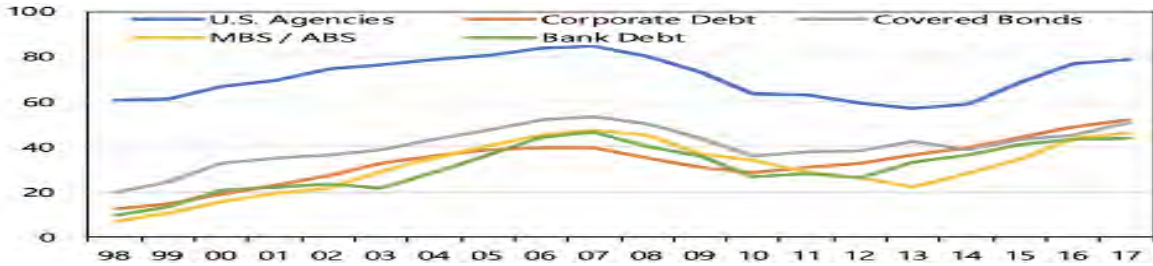
## زيادة التركيز على العوائد

السيولة والحفاظ على رأس المال يشكلان الهدفان الأساسيين للممارسات الأفضل في إدارة الاحتياطيات. ومع ذلك ، فإن الهدف الثانوي لتعظيم العوائد قد أيضا زادت أهمية في الماضي القريب. وقد انعكس ذلك في الممارسات الفضلى لإدارة الاحتياطيات على النحو التالي:

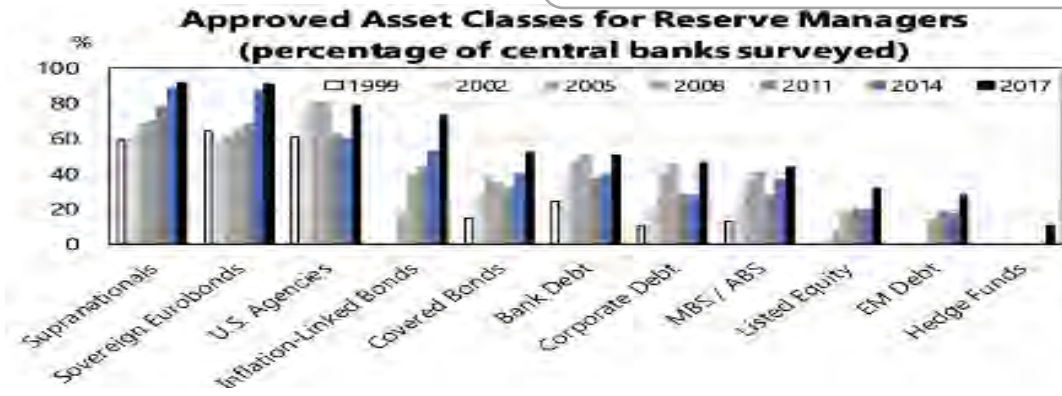
(أ) أضافت البنوك المركزية فئات جديدة للأصول التي يمكن أن تستثمر فيها وغيرت من تكوين المحفظة لتشمل زيادة محدودة في التخصيصات للأصول ذات المخاطر المتباينة لتحسين العوائد وتنويع مصادر المخاطر. كانت الأدوات الرئيسية تقليديًا هي الأصول عالية السيولة والأمانة ، مثل الودائع المصرفية وأذون الخزانة والأدوات المالية المصدرة من الحكومات ذات التصنيف العالي والسندات المصدرة من المؤسسات والهيئات الدولية. الأصول ذات المخاطر المتباينة ، والتي بدأ ادراجها بشكل متزايد في محافظ احتياطي البنوك المركزية ، ووتضمن نسبة ضئيلة من مخاطر السوق ، والائتمان ، وإلى حد أقل، مخاطر السيولة . ويرد مسح لهذه الأدوات في الجدول 1 أدناه.

بعد الأزمة المالية العالمية (GFC) لعام 2008 (وفي الواقع بالنسبة لبعض البنوك المركزية مثل البنك المركزي الياباني منذ التسعينيات)، كانت قد ظهرت فئات متباينة المخاطر للإدراج في محافظ الاحتياطيات، مثل سندات الشركات والأسهم المدرجة بأسواق المال والعقارات باعتبارها ، لتحسين العوائد وتنويع المخاطر ولكن أيضا كأداة لضخ السيولة في السوق من قبل البنوك المركزية في البيئات الانكماشية الناجمة عن الأزمات. وأخيرا ، كان الاعتماد الأقل على الذهب اتجاها ملحوظا، وزيادة في استخدام المشتقات المالية، ومنها العقود الأجلة وعقود مبادلة العملات للقيام بالحد من المخاطر من ناحية استراتيجية الإستثمار أو القيام بالعمليات التي تنتج الإستفادة من التغييرات السوقية من الناحية التكتيكية على المدى القصير. يعهد الشكل 3 والجدول 1 الحيازات المعتمدة لفئات الأصول المختلفة القابلة للاستثمار والنسبة المئوية للبنوك المركزية التي تستخدمها والتي شملها المسح.

الشكل 3: الفئات القابلة للاستثمار المعتمدة من قبل مديري احتياطيات البنك المركزي على مستوى العالم



فئات الأصول المتفق عليها لمدراء الاحتياطي (النسبة المئوية من البنوك المركزية المشمولة بالمسح)



المصدر: مسح مديري الاحتياطيات ليو.بي.إس. IMF WP /UBS 18/31 ، فبراير/شباط 201

الجدول 1: فئات الأصول القابلة للاستثمار والأدوات (% من البنوك المركزية المشاركة في الإستهيبان)

فئة أو أداة الأصول	2007 <sup>2</sup>	2007 <sup>1</sup>	2005	2004	2002
سندات مصدرة من الهيئات والمؤسسات الدولية	*	96	*	86	*
أذون الخزانة	*	100	*	89	*
ودائع مصرفية	*	96	*	94	*
سندات حكومية	*	100	*	80	*
سندات حكومية دون AA	*	33	57	57	*
أوراق مالية مصدرة من هيئات حكومية	88	93	67	65	81
الأوراق لمالية المدعومة بالرهن (MBS)	42{	59	25	28	37 {
الأوراق لمالية المدعومة بالأصول (ABS)	42{	48	25	29	
سندات الشركات (درجة الاستثمار)	35	41	21	17	23 {
سندات الشركات دون BBB	2	7	4	2	
سندات مربوطة بالمؤشرات	37	56	25	*	*
أسهم	9	19	8	6	12
صناديق تحوط	2	4	0	2	2
غير ذلك	<sup>3</sup> 12	52	8	15	93
مشتقات مالية	80	89	*	*	52
ذهب	*	81	*	57	*
مذكرة: عدد البنوك المركزية المشاركة في الإستهيبان	43	27	48	65	43

\* تشير الى عدم توفر هذا الخيار

المصدر: مسح BIS . ورقة BIS رقم 40. مايو/أيار 2008.

ب) زيادة استخدام المدراء الخارجيين. يستخدم أكثر من ثلثي البنوك المركزية التي شملها المسح الذي أجراه بنك التسويات الدولية مدراء خارجيين بشأن إدارة ما بين 5% إلى 15% من محفظة احتياطياتهم. والدافع لذلك هو أن يكون لديهم قناة مفتوحة لنقل المعلومات من مدير الأصول المحترف، والإستفادة من تغطيتهم المفصلة لقطاع أو فئة أصول معينة، من أجل لزيادة العوائد أو تنويع المحفظة.

(ج) تزايد الميل نحو تقسيم محفظة الاحتياطيات. قام ثلثي البنوك المركزية التي استجابت لمسح بنك التسويات الدولية بتقسيم محفظة احتياطياتها إلى شريحتين على الأقل: شريحة سيولة وشريحة استثمار، مع وجود مجموعة مختلفة من إرشادات الاستثمار ومستوي المخاطرة المقبول لكل شريحة علي حدي.

(د) إنشاء صناديق سيادية. هناك أيضاً عدد كبير من البلدان التي أنشأت صندوقاً سيادياً منفصلاً تماماً مع تفويض أقوى للتركيز على العائدات. تشمل بعض الأمثلة الإمارات العربية المتحدة، والنرويج، وسنغافورة، وليبيا، والكويت، والصين، وهونغ كونغ، وروسيا، وأستراليا، وقطر، والجزائر، وكوريا، ومؤخراً مصر. ربما يمكن لليمن التفكير في نوع من آلية تحويل الثروة بين الأجيال في مرحلة لاحقة، مثل صندوق سيادي لإستثمار إيرادات النفط.

### منهجية أكثر تنظيماً لصنع القرار

تتميز الممارسات الدولية الغالبة بمزيد من اتخاذ القرارات بدءاً من الإدارة العليا بمشاركة رسمية أكثر للسلطة التنفيذية على المستوى الاستراتيجي و "التدرج العامودي" لعملية إدارة الاحتياطيات. كما أنها تتميز بفصل وظيفي متزايد للأنشطة ("الفصل الأفقي"). يعرض الجدول 2 أدناه مسحاً لأفضل الممارسات للهيكل التنظيمي والتسلسل الإداري.

### الجدول 2: الهيكل التنظيمي وخطوط الإدارة (% من البنوك المركزية المستجيبة)

المكتب الأمامي والخلفي	المكتب الأمامي والمتوسط	
48	28	منفصلة لحد المستوى التنفيذي
28	36	منفصلة لحد المستوى المتوسط
24	36	منفصلة لحد مستوى رئيس الدائرة أو أقل

المكتب المتوسط معرف هنا على أنه المجال الوظيفي المسؤول عن تقييم وإسناد الأداء.

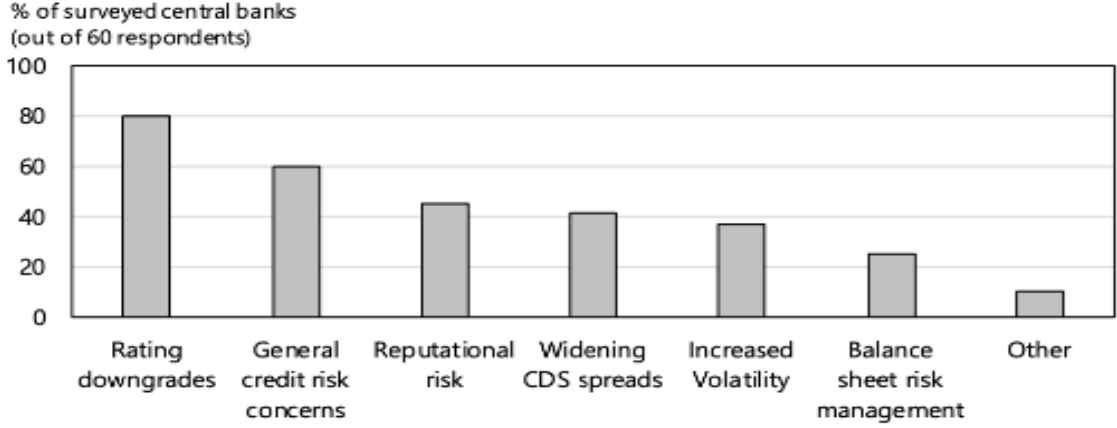
المصدر: مسح BIS. ورقة BIS رقم 40. مايو/أيار 2008.

### تعزيز إدارة المخاطر

مع زيادة التركيز على العائدات وعملية صنع القرار الأكثر تنظيماً، كان لابد من تعزيز إدارة المخاطر تبعاً، سواء على مستوى المخاطر المالية (مخاطر الائتمان، السوق والسيولة) أو المخاطر التشغيلية. عادة ما لا يتم فصل مخاطر السيولة نظراً لأن تخصيص الأصول الاستراتيجي (SAA) يضمن بشكل قاطع أن الأدوات التي يستثمر بها يجب أن تكون عالية السيولة (استناداً إلى مؤشرات مثل حجم السوق المصدرة لهذه الأدوات، حجم التداول اليومي وفروق أسعار العرض والطلب المحدودة، ووجود سوق إعادة شراء ووجود عقود مبادلة لمخاطر الائتمان المتداولة على الاسم). يعرض الشكل 4 أدناه محفزات إدارة المخاطر لإعادة موازنة محفظة إدارة الاحتياطيات من قبل البنوك المركزية العالمية بعد الأزمة المالية العالمية (GFC) لعام 2008.

#### الشكل 4: إدارة المخاطر لإعادة موازنة حافظة الاحتياطيات والمؤشرات ذات العلاقة

النسبة المئوية من البنوك المركزية المشمولة في المسح (من بين 60٪ من المجيبين)



المصدر: مورهان ومولدر 2013، IMF WP/18/31، فبراير/شباط 2018

تمثل مخاطر السوق الحصة الأكبر من المخاطر المالية التي تتعرض لها احتياطيات النقد الأجنبي. لقد تطورت التكنولوجيا والأدوات الخاصة بقياس مخاطر السوق بشكل كبير على مدى العقدين الماضيين، حيث تم رصد الكثير من هذه الأدوات بسهولة عبر استخدام منصات مثل Bloomberg أو Refinitiv. ويمكن لليمن تنفيذ هذا بسهولة، عن طريق التركيز على المؤشرات الأنسب والتدريب على الممارسات الفضلى لقياس مخاطر السوق كجزء من التدريب المخطط من قبل برامجنا على أفضل الممارسات لإدارة الاحتياطيات.

يتم عرض المؤشرات والأدوات التي تستخدمها البنوك المركزية على مستوى العالم لإدارة مخاطر السوق في الجدول 3 أدناه.

#### الجدول 3: استخدامات مؤشرات وأدوات مخاطر السوق (% من البنوك المركزية المستجيبة)

النطاق والمنهجية	
إجمالي المحفظة	52
طرق القياس	
القيمة ذات المخاطر المنسوبة (VaR)	96
تحليل الأجل المرجح بالمخاطر (Duration)	89
اختبار الضغط (Stress Testing)	71
غير ذلك	43
اختبار رجعي (Back Testing)	50
منه على أساس إجمالي المحفظة	82

المصدر: مسح BIS. ورقة BIS رقم 40. مايو/أيار 2008.

مخاطر الائتمان مهمة للغاية بالنسبة للبنوك المركزية بسبب الخسائر المالية التي يمكن أن تتكبدها والأهم تكاليف السمعة المرتبطة بحدث ائتماني. يبقى الحدث الائتماني قائماً في ذاكرة العاملين في السوق لفترة طويلة، ويلقي بظلاله على مصداقية المؤسسة، سواء كانت بنكاً مركزياً أو مؤسسة دولية أو مؤسسة تنموية. نظراً لإدراج المزيد من فئات الأصول في عالم الأصول القابلة للاستثمار، فقد تم أيضاً تعزيز أنظمة إدارة مخاطر الائتمان بالبنوك المركزية.

المؤشرات والأدوات التي تستخدمها البنوك المركزية لإدارة مخاطر الائتمان على الصعيد العالمي تعرض بالتفصيل في الجدول 4.

الجدول 4: استخدام مؤشرات وأدوات مخاطر الائتمان (% من البنوك المركزية المستجيبة)

	الحدود الائتمانية بناء على
96	التصنيف الائتماني
74	الميزانيات والقوائم المالية
44	نوعية الطرف المقابل
44	حجم احتياطات العملة الأجنبية
44	أجال الاستحقاق
19	غير ذلك
	نطاق حدود الائتمان
92	الاستثمارات
85	الودائع
85	المشتقات
69	المعاملات المعكوسة
58	التسوية
	حدود التركيز
63	حسب القطاع
58	حسب البلد

المصدر: ورقة BIS رقم 40. مايو/أيار 2008.

يعتبر تحديد حجم مخاطر التشغيل وتقييمها أحد التحديات الرئيسية التي تواجه البنوك المركزية. ويعتبر وجود خطط استمرارية الأعمال ومواقع عمل بديلة في حالة حدوث كوارث توفر الوصول الكامل إلى أنظمة التداول والتسوية والمدفوعات أمرًا بالغ الأهمية للتخفيف من المخاطر التشغيلية. كما أن وجود أنظمة تداول في مواقع أخرى، هو أيضًا من الممارسات الجيدة.

يتم عرض المؤشرات والأدوات التي تستخدمها البنوك المركزية لإدارة المخاطر التشغيلية على مستوى العالم في الجدول 5 أدناه.

## الجدول 5: استخدام مؤشرات المخاطر التشغيلية (% من البنوك المركزية المستجيبة)

المنهجية	
سجل الأحداث	67
التقييم الذاتي استناداً إلى الاستبيانات	59
مؤشرات المخاطر الرئيسية	37
غير ذلك	56

المصدر: مسح BIS. ورقة BIS رقم 40، مايو 2008.

يعرض القسم التالي الهيكل المقترح للسياسات والإرشادات الخاصة بإدارة الاحتياطيات بالبنك المركزي اليمني. تم تطوير هذا الهيكل المقترح على مدار الربع الثاني بالاعتماد على أفضل الممارسات التي وضعها بنك التسويات الدولية لإدارة الاحتياطيات والملخصة أعلاه، بالإضافة إلى بعض مكونات الهيكل الأولي الذي تم تطويره على مدار الربع الأول، بالإضافة إلى دمج عناصر من إدارة الاحتياطيات الحالية للبنك المركزي اليمني، التي تم إعدادها بالاشتراك مع البنك الدولي لصالح البنك المركزي اليمني في صنعاء منذ فترة.

### II. الهيكل المقترح لسياسة إدارة الاحتياطيات

وفقاً لبنك التسويات الدولية والبنك المركزي الأوروبي، تعتبر إدارة احتياطيات النقد الأجنبي ذات أهمية تضطلع بها البنوك المركزية وذلك لأنها علي صلة وثيقة بترتيبات سعر الصرف ومتطلبات السياسة النقدية، و أيضاً قد تخدم أصول الاحتياطيات الأجنبية مجموعة متنوعة من الأغراض، تتراوح ما بين إدارة سعر الصرف وإلى إدارة الدين الخارجي.

ومن ثم فإن الإدارة الفعالة من جانب البنوك المركزية للاحتياطيات الأجنبية أمر حيوي إذا كان لها أن تفي بمهامها بشكل شامل. وعلى وجه الخصوص، فإن التخصيص والإدارة الفعالين للاحتياطيات الأجنبية سيعززان من السيولة اللازمة للوفاء بالتزامات السيادية العامة مع تقليل تكاليف الاحتفاظ بالاحتياطيات في نفس الوقت. ويمكن أن تساهم إدارة مخاطر الاحتياطيات الأجنبية للبنك المركزي في تحقيق هذه الأهداف من خلال الحد للمخاطر المالية والتشغيلية أيضاً.

في السنوات الأخيرة، قامت العديد من البنوك المركزية بتوسيع وحدات الرقابة على المخاطر إلى قطاع كامل لإدارة المخاطر الشاملة مستقلة نسبياً عن إدارة الاحتياطيات. وبهذا تدعم القرارات في جميع مراحل عملية الاستثمار في الاحتياطيات الأجنبية. وبالإضافة تساهم في ترجمة أهداف السياسات الإستراتيجية لتكوين المحفظة والأوزان النسبية للأصول.

بنك التسويات الدولية والبنك الأوروبي المركزي قاموا بطرح مخططاً لإطار تحديد الأوزان الاستراتيجية للأصول في إدارة محفظة الإحتياطيات والذي نعتقد أنه يناسب احتياجات اليمن بشكل جيد على مدى العقد المقبل متزامناً مع عملية إعادة بناء محفظة الإحتياطيات بشكل مطرد في ظل توقعات تحرير الودائع المجمدة وزيادة الحتياطيات من مصادر النقد الأجنبي الأخرى التي قد تتضمن ودائع من قبل بلدان شقيقة أو جهات دولية.

الإعداد التنظيمي السليم سوف يقوم بدور مهم للغاية. أولاً، (i) هيكل حوكمة ثلاثي المستويات يتألف من لجنة رقابة ولجنة استثمار وإدارة فعالية للمحفظة هو أحد النهج المقترحة التي يمكن من خلالها تنفيذ قرارات تخصيص الأصول بكفاءة وفعالية. ثانياً، (ii) تصميم فلسفة الاستثمار، التي تترجم متطلبات السياسة العامة إلى أهداف عوائد ملموسة وقيود للمخاطر لكل محفظة أو شريحة علي حدا متطابقة مع الغرض الإستثماري للمحفظة أو الشريحة على المدى الطويل. ثالثاً وأخيراً، (iii) يجب وضع إطار كمي للتوزيع الفعلي للأصول.

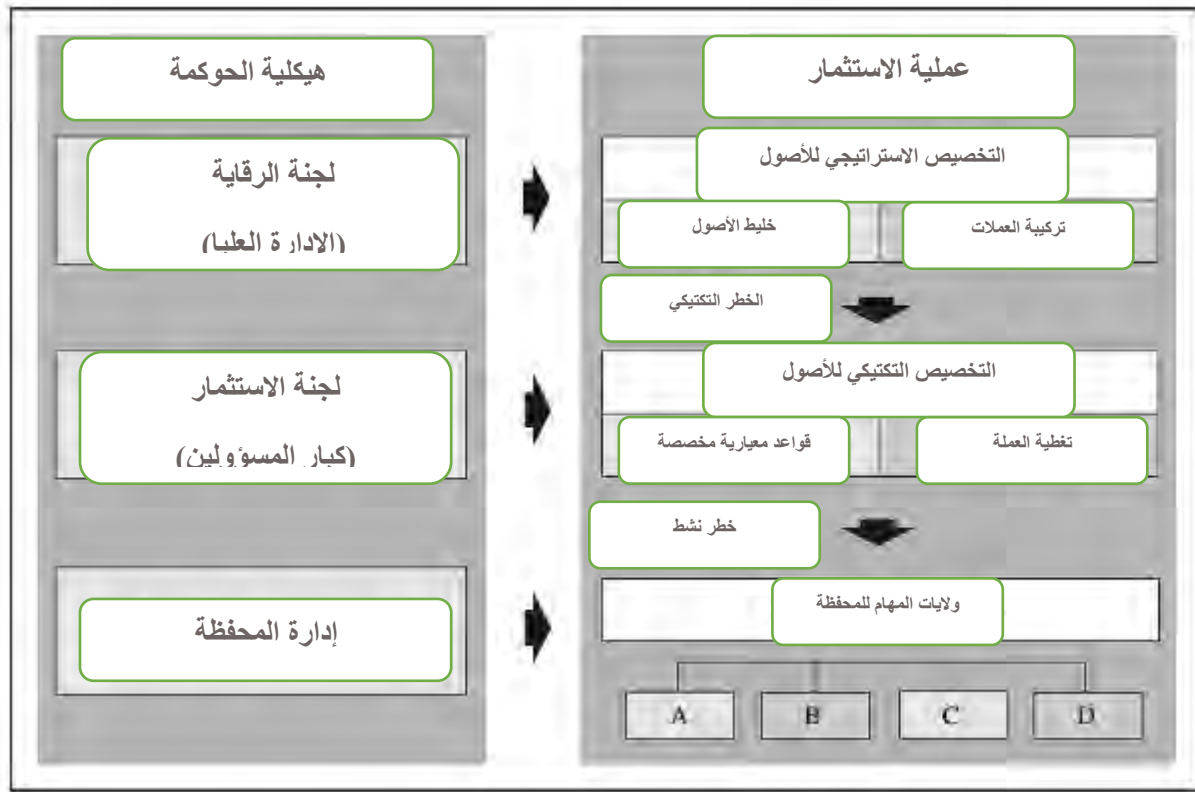


## هيكل حوكمة ثلاثي الأبعاد

أهمية وجود هيكل تنظيمي سليم لإدارة الاحتياطات بكفاءة في غاية الضرورة. فيما يتعلق بأسلوب الاستثمار النشط ، سيتم التوصية بهيكل حوكمة ثلاثي المستويات ، حيث يتم الفصل بشكل واضح بين مسؤوليات التخصيص الاستراتيجي والتكتيكي للأصول وإدارة المحفظة الفعلية. بمجرد تطبيق هذا الإطار ، سيسهل التنفيذ المنضبط لقرار تخصيص الأصول، ويجب أن يساعد في توضيح المسؤوليات وإدارة المخاطر وتعزيز ثقافة الوعي بالمخاطر عبر المؤسسة.

من المتطلبات الضرورية للشفافية والمساءلة وجود عملية استثمار محددة بوضوح إلى جانب هيكل حوكمة سليم. إذا اتخذ البنك المركزي قرارًا بشأن أسلوب الاستثمار النشط ، فمن الممارسات الشائعة المتزايدة أن يكون له هيكل حوكمة من ثلاثة مستويات يتألف من لجنة الرقابة ولجنة الاستثمار و وحدات إدارة المحافظ المسؤولة عن تخصيص الأصول الاستراتيجي والتكتيكي وإدارة المحافظ الفعلية. . يوضح الشكل 5 هيكل الحوكمة ثلاثي المستويات مع عملية استثمار تسمح بإدارة الاحتياطات النشطة. بدءًا من التوزيع الاستراتيجي للأصول الذي تتم إدارته بشكل سلبي، تتم إضافة تخصيص تكتيكي للأصول، متبوعًا بنفويضات المحفظة الفعلية. يهدف هذا الإعداد إلى تحسين ملف تعريف المخاطر والعائد للمعيار الاستراتيجي من خلال توفير المرونة اللازمة للاستفادة من فرص الاستثمار القصيرة إلى متوسطة الأجل.

## الشكل 5: الإعداد التنظيمي الأمثل



المصدر: كاردون وكوش. بنك التسويات الدولية والبنك المركزي الأوروبي ، إدارة المخاطر لاحتياطات البنك المركزي ، 2004

## هيكل فلسفة الاستثمار ومبادئ الاستثمار

فلسفيات الاستثمار للبنوك المركزية هي الوسائل التي يمكن من خلالها ترجمة متطلبات السياسة العامة إلى مبادئ الاستثمار. لتحديد هيكل الأصول الاستراتيجي للاحتياطيات والأوزان النسبية، ينبغي تحويل أهداف السياسة العامة، مثل توفير السيولة، أو الحد من عوامل المخاطر الخارجية، أو استثمار الثروة الوطنية على الأجل الطويل، إلى أهداف عوائد أكثر تحديداً، وقابلة للقياس الكمي وقيود للمخاطر. ينبغي وضع هذه الأهداف والقيود في بيان مبادئ الاستثمار وتشكل الأساس لتحديد التركيبة المثلى بين العائد المتوقع للاحتياطيات والسيولة (المخاطر) والأمن (مخاطر السوق والائتمان). بالإضافة إلى ذلك، تحدد مبادئ الاستثمار أيضاً الهيكل التنظيمي وتضع نصوصاً محددة لإجراء التخصيص التكتيكي للأصول، وتنفيذ عمليات البيع والشراء للمحظة، وإدارة المخاطر.

**والهيكل المقترح لليمن، يوصى باستخدام نهج الأصول والخصوم لإدارة الاحتياطيات كفلسفة استثمارية؛** ويسعى هذا إلى دمج إدارة محافظ الاحتياطيات مع قدرة البنك المركزي على تحمل المخاطر المالية والوفاء بالتزامات الديون الخارجية للدولة. يمكن اعتبار هذا النهج، الذي تنزايد أهميته، المبدأ الغالب في تحديد أهداف وقيود إدارة الاحتياطيات. وتشير إدارة الأصول والخصوم إما، في نطاق تعريف ضيق، إلى دراسة مشتركة لبنود الأصول والخصوم في دفاتر البنك المركزي أو على نطاق أوسع، تشمل إدارة الدين السيادي أو الخارجي للبلد.

في تعريف ضيق، سيتم تحديد حجم الاحتياطيات الأجنبية، وتوزيع العملات، والقواعد المعيارية الإستراتيجية في وقت واحد في سياق الميزانية العمومية، ومن هنا تأتي أهمية أنظمة إدارة الديون ومكونات مستودع البيانات كجزء هام من عملنا مع البنك المركزي اليمني.

يستغل هذا النهج، بالإضافة إلى تأثيرات التنوع ضمن الاحتياطيات الأجنبية، إمكانية الحد من المخاطر أو تعزيز الدخل الناجم عن ارتباط الاحتياطيات ببند الميزانية العمومية الأخرى وزيادة كفاءة الميزانية العمومية.

**وبالأخص وتحديداً، يوصى بالأهداف التالية** من منظور الأصول والخصوم: تعظيم الدخل من الاحتياطيات لتمكين البنك المركزي على تحمل المخاطر المالية المحتملة، وتقليل مساهمة الاحتياطيات في مخاطر الميزانية العمومية الإجمالية للبنك المركزي، أو تقليل النقص في الدخل من الاحتياطيات بالنسبة لمصادر تمويلها.

وعلى وجه الخصوص، عندما تشمل مسؤوليات المؤسسة كلاً من إدارة الاحتياطيات وإدارة الديون، يمكن تطبيق إدارة الأصول والخصوم بمعنى أوسع. في مثل هذه الحالة، يمكن تحديد أهداف وقيود التوزيع الاستراتيجي للأصول مقابل حجم وخصائص مطلوبات العملات الأجنبية. على سبيل المثال، قد تسعى إدارة الاحتياطيات جاهدة لإيجاد التركيبة المثلى للمخاطر والعائد في وضع يتم فيه قياس المخاطر بالنسبة لتركيبه ديون القطاع العام الخارجية.

### الإطار الكمي لتخصيص الأصول الاستراتيجي

من مبادئ الاستثمار المعمول بها انه يجب تحديد المستوي المستهدف من المخاطر والعائد طويل الأجل للاحتياطيات. يتم تحديد عملية التخصيص الاستراتيجي للأصول في الممارسة العملية من خلال اتباع أربع خطوات، تشمل التحديد الكمي لمستوي المخاطر وأجال الاستثمار، وتشكيل توقعات العائد والمخاطر، واختيار الأوزان المناسبة لتعظيم العائد وتخفيض المخاطر، والتنفيذ عن طريق الاختيار الفعلي للتوزيع الاستراتيجي للأصول.

نوصي باتباع نهج منظم على هذا النحو كي تتمكن الإدارة العليا للبنك المركزي اليمني من تحديد اهداف السياسة العامة لإدارة الإحتياطيات على المستوى الاستراتيجي، مع الحفاظ على المرونة التشغيلية طالما أنها في إطار السياسة الاستراتيجية. يسمح هذا النهج بالمرونة التكتيكية المطلوبة لتحسين العوائد وتخفيف المخاطر.

**الخطوة 1: تحديد مستوي المخاطر وأجال الاستثمار:**

على سبيل المثال، يمكن أن يكون أحد الأهداف هو تعظيم العوائد المتوقعة على محفظة الاحتياطيات وفقاً لشرط عدم وجود عوائد سلبية من حيث القيمة المطلقة لأي فئة أصول قابلة للاستثمار أو للمحفظة ككل. هذا هدف متحفظ للغاية من مستوى المخاطر المقبول. يمكن أن يكون هدف آخر هو أن 5٪ فقط من الخسائر مسموح بها على مدى 20 عامًا، أو بعبارة أخرى، سنة واحدة كل 20 عامًا، سيتم تحمل العوائد السلبية، طالما تم التقيد بجميع قيود المحفظة. هذا بهدف متحفظ لتحمل المخاطر، ولكن أقل تحفظاً من مثال الهدف الذي ذكره أولاً.

**. بالنسبة لليمن ، نوصي بتفعيل الهدف الأول.**

يرتبط هدف أجال الاستثمار الاستراتيجي للأصول الخاص بالاحتياطيات ارتباطاً وثيقاً بالأهداف والقيود المنصوص عليها في مبادئ الاستثمار. إذا تم الاحتفاظ باحتياطيات لتوفير سيولة جاهزة لتمويل عمليات سياسة الصرف الأجنبي (الهدف الأول)، فإن أجال الاستثمار يرتبط باحتمالية وتوقيت وحجم هذه العمليات (أي من أجل مطابقة المدفوعات على هذه الالتزامات). إذا كان الهدف هو إدارة الدين الخارجي (الهدف الثاني)، قد يتوجب استخدام مواصفات مختلفة للمحفظة (الهدف الثاني).

**. بالنسبة لليمن ، نوصي باستخدام محفظتين منفصلتين لإدارة كل هدف من الأهداف المذكورة أعلاه.**

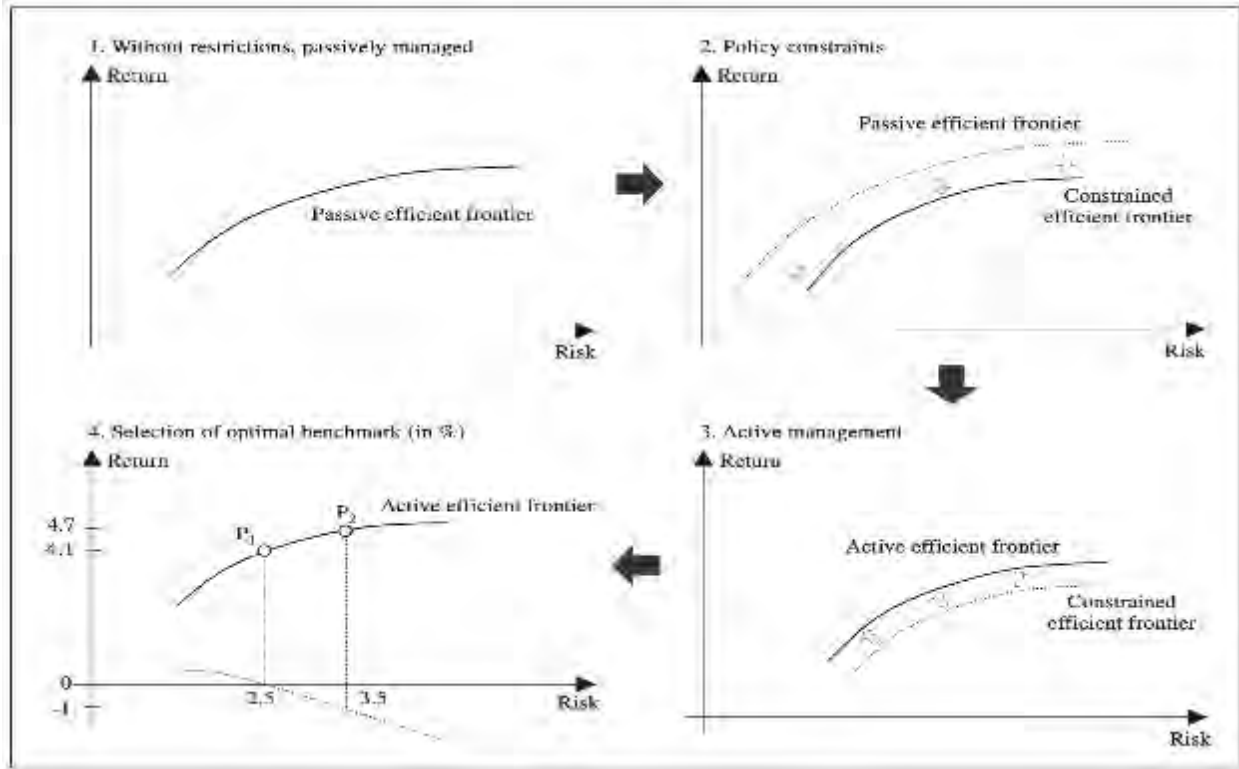
## **الخطوة 2: تشكيل توقعات العائد والمخاطر**

قد يمثل متوسط العوائد التاريخية نقطة انطلاق لتوليد توقعات العائد والمخاطر، وهو ما نوصي به لليمن. في مرحلة لاحقة، قد يهدف التوزيع الاستراتيجي للأصول إلى توليد توقعات المخاطر والعائد المستشرقة للمستقبل.

## **الخطوة 3: اختيار الأوزان المناسبة لتعظيم العائد وتخفيض المخاطر**

تهدف إدارة محفظة الاحتياطيات إلى تعظيم العوائد وتقليل المخاطر، أي أن التوقعات المشتقة حول مخاطر الأصول وعائداتها تتحول إلى حدود فعالة (مجموعة الأصول الاستثمارية مع مجموعات العوائد والمخاطر التي تتفوق في الأداء على أي مجموعات أخرى من الأصول)، وهي مجموعة من المحافظ التي تزيد العوائد المتوقعة إلى أقصى حد عند كل مستوى من مخاطر المحفظة كما هو مبين في الشكل 6.

الشكل 6: اختيار الأوزان المناسبة لتعظيم العائد وتخفيض المخاطر



Source: Cardon & Coche. BIS and ECB, Risk Management for Central Bank Reserves, 2004

## الخطوة 4: التخصيص الاستراتيجي للأصول

الغرض من اتباع نهج كمي لعملية الاستثمار هو تقييم عملية اختيار الأوزان المناسبة لتعظيم العائد وتخفيض المخاطر للمحفظة، ولكن الأهم من ذلك، توفير نقطة انطلاق للمناقشات بين مديري المخاطر ومديري المحافظ والإدارة العليا حول سبب وإلى أي مدى ينبغي أن ينحرف التخصيص الاستراتيجي النهائي للأصول عن المقترح المبدئي.

يمكن لهذه المناقشات، على سبيل المثال، تقديم المزيد من متطلبات السياسة العامة ومحاولة الموازنة بين القيود الإضافية التي يصعب استيعابها في إطار كمي بحت. جزء من هذه العملية هو تقييم الجوانب التنفيذية لتخصيص الأصول المخطط له من وجهة نظر إدارة المحفظة. في النهاية، وعلى خلفية قيود الإستثمارية، ومتطلبات السياسة المفعلة لإدارة الإحتياطيات، واعتبارات إدارة المحفظة الأخرى، يجب أن تؤدي هذه الممارسات إلى تخصيص استراتيجي للأصول على أساس مستوي المخاطر المسموح به والعوائد المستهدفة، متماشية مع توجيهات الإدارة العليا للبنك المركزي اليمني.

عادة، سيتم التعبير عن التوزيع الاستراتيجي للأصول من حيث النسبة المئوية المرجحة لفئات الأصول ونطاقات الانحراف. وعلى المستوى التنفيذي، يتم تناول تصميم معيار المؤشر والعملية الأساسية، وبالتالي ترجيح الأصول المتفق عليه أما عن طريق استخدام مؤشرات السوق أو عن طريق استخدام المحافظ الافتراضية.

### III. الهيكل المقترح للبنك المركزي اليمني لسياسات الاستثمار والمبادئ التوجيهية لإدارة الإحتياطيات بما يتماشى مع أفضل الممارسات العالمية

#### إدارة احتياطيات بالبنك المركزي اليمني

تعتبر إدارة احتياطيات النقد الأجنبي ذات أهمية يضطلع بها البنك المركزي اليمني لدعم ترتيبات أسعار الصرف من أجل القضاء على ممارسات العملات المتعددة (MCPs) والمساعدة في تلبية متطلبات السياسة النقدية. وبالتالي، فإن الأصول الإحتياطية الأجنبية تخدم أغراضاً مختلفة، تتراوح من إدارة سعر الصرف إلى إدارة الدين الخارجي. وتعتبر الإدارة الفعالة للبنك المركزي اليمني للإحتياطيات الأجنبية أمراً حيوياً لتنفيذ ولاية مهامهم بشكل شامل. وعلى وجه الخصوص، فإن الأوزان الإستراتيجية وتقسيم المحفظة لعدة شرائح سيعززان السيولة اللازمة للوفاء بالتزامات السياسات مع تقليل تكاليف الإحتفاظ بالإحتياطيات إلى الحد الأدنى في نفس الوقت. يمكن لإدارة مخاطر الإحتياطيات الأجنبية للبنك المركزي اليمني أن تساهم في تحقيق هذه الأهداف من خلال إدارة ومراقبة الإنكشاف على المخاطر المالية والتشغيلية.

**السيولة والحفاظ على رأس المال** هما الهدفان الأساسيان لإدارة احتياطيات البنك المركزي اليمني. ومع ذلك، فإن الهدف الثانوي المتمثل في تحسين العوائد مع تقليل المخاطر أمر مهم أيضاً نظراً لندرة الموارد المتاحة للبنك المركزي اليمني.

#### الغرض من سياسات وإرشادات إدارة الإحتياطيات

تتمثل أغراض سياسات وإرشادات إدارة الإحتياطيات في وصف إطار الحوكمة، وملف تعريف العائد والمخاطر طويل الأجل للإحتياطيات، ومبادئ الاستثمار. يتم تحديد التخصيص الاستراتيجي للأصول في الممارسة العملية من خلال تحديد مستوى تحمل المخاطر وأجال الاستثمار، وتشكيل توقعات العائد والمخاطر، وإرشادات طرق تعظيم العائد وتقليل المخاطر. يوفر هذا الهيكل المقترح ميزة الكفاءة من ناحية، مع ضمان تركيز الإدارة العليا للبنك المركزي اليمني على تحديد التفضيلات ومتطلبات السياسات على المستوى الاستراتيجي، بينما يتم الحفاظ على المرونة التشغيلية طالما أنها ضمن القيود الموضوعية على المستوى الاستراتيجي. يسمح هذا الهيكل بالمرونة التكتيكية المطلوبة لتحسين العوائد وتخفيف المخاطر.

## الواجبات والمسؤوليات

إن وجود هيكل تنظيمي لإدارة الاحتياطيات بكفاءة بالنسبة للبنك المركزي اليمني هو أمر بالغ الأهمية. هناك حاجة إلى هيكل حوكمة ثلاثي المستويات، حيث يتم الفصل بشكل واضح بين مسؤوليات التخصيص الاستراتيجي والتكتيكي للأصول وإدارة المحفظة الفعلية. بمجرد إرساء هذا الإطار في البنك المركزي اليمني، سيسهل التنفيذ القرارات تخصيص الأصول ويساعد في توضيح المسؤوليات وإدارة المخاطر وتعزيز ثقافة الوعي بالمخاطر عبر البنك المركزي اليمني.

من المتطلبات الضرورية للشفافية و توضيح المسؤوليات وجود عملية استثمار محددة بوضوح بشكل كمي إلى جانب هيكل حوكمة سليم. يتضمن هيكل الحوكمة ثلاثي المستويات المقترح للبنك المركزي اليمني، لجنة إشراف، ولجنة استثمار، ووحدات إدارة محافظ مسؤولة عن التخصيص الاستراتيجي والتكتيكي للأصول وإدارة المحفظة الفعلية (يرجى الرجوع إلى الشكل 5 في المقدمة). هيكل الحوكمة ثلاثي المستويات يمكن البنك من عمليات استثمار تسمح بإدارة الاحتياطيات النشطة بدءًا من التخصيص الاستراتيجي للأصول الذي يتم تحديده مسبقاً لعملية الإستثمار، يتم إضافة تخصيص تكتيكي للأصول، متبوعاً بولايات مهام المحفظة الفعلية. يهدف هذا البناء الثلاثي إلى تحسين العائد والمخاطر للمعيار الاستراتيجي من خلال توفير المرونة اللازمة للاستفادة من فرص الاستثمار القصيرة إلى متوسطة الأجل من قبل البنك المركزي اليمني.

### بيان أهداف الاستثمار وغاياته وقيوده

بالنسبة للبنك المركزي اليمني، يمكن تقسيم الأهداف والغايات والقيود الخاصة بالنسبة إلى التخصيص الاستراتيجي للأصول لثلاث شرائح أو فئات رئيسية للمحفظة.

**سيتم تخصيص شريحة أو فئة المحفظة الأولى لمحفظة السيولة لإدارة متطلبات التدفق النقدي على المدى القصير من 0 شهرًا إلى 24 شهرًا.**

يتم تخصيص شريحة أو فئة المحفظة الثانية لمطابقة المطلوبات، مع حجم وخصائص مطلوبات العملات الأجنبية. على سبيل المثال، يمكن للبنك المركزي اليمني تحديد الأهداف والغايات والقيود المتعلقة بتركيبة ديون القطاع العام الخارجية في المقام الأول، ليتم توسيعها لاحقًا لتشمل ديون القطاع الخاص، حيث سيحتاج الأخير إلى اللجوء إلى البنك المركزي اليمني باعتباره مقرض الملاذ الأخير LOLR إذا كان لديهم عجز لتغطية التزاماتهم. هذه محفظة متوسطة إلى طويلة الأجل تغطي أفق استثماري من عامين إلى 20 عامًا.

**سيتم تخصيص شريحة أو فئة المحفظة الثالثة لتعزيز العائد** ويمكن أن تتضمن بعض التخصيص من عائدات النفط والاستثمار في مجموعة أوسع من الأدوات مقارنة بأول محفظتين. يمكن أن تكون هذه المحفظة الثالثة بمثابة نواة لتأسيس صندوق ثروة سيادية في مرحلة لاحقة. هذه أيضًا محفظة متوسطة إلى طويلة الأجل، مع قيود أقل، وتنوع أكثر في البدائل الإستثمارية المسموح بها لتلبية الهدف الأساسي المتمثل في تعزيز العائد. وينبغي أن يكون الحجم النسبي لهذه المحفظة الثالثة صغيرًا جدًا في البداية.

**أخيرًا، يوصى بأن تكون العملة المعيارية هي الدولار الأمريكي مبدئيًا** ويمكن لاحقًا دراسة فيما إذا كان الانتقال إلى سلة من العملات سيكون أكثر ملاءمة مع نمو قاعدة شركاء اليمن التجاريين (والعملات الرئيسية للنظر في الرئيسيين، السعودية والإمارات مربوطة بالدولار الأمريكي؛ وبالتالي، استخدام الدولار كالعملة المعيارية في البداية مبرر).

**أ. الأهداف: يجب تحديد الهدف من كل محفظة أو شريحة أو فئة بوضوح.**

i. متطلبات العائد: يجب أن تحدد بوضوح معدل العائد المستهدف لكل محفظة، بناءً على الاتجاهات التاريخية في البداية، ويمكن استبدالها لاحقًا بتحليلات تستشرف المستقبل لتحديد العوائد المطلوبة.

ii. تحمل المخاطر: يجب أن يذكر بوضوح لكل شريحة أو فئة محفظة. مبدئيًا باستخدام مقياس تقلب بسيط وأيضًا مقياس مدة الإستثمار الموزونة بمستوي التدفقات ويمكن حسابه بسهولة من Refinitiv أو Bloomberg. ويمكن تطبيق مقاييس أكثر تعقيدًا في وقت لاحق، مثل نهج القيمة المعرضة للمخاطر أو نهج النقص.

**ب. القيود:** يجب أن تحدد القيود بوضوح على كل شريحة أو فئة من المحفظة. كل محفظة بطبيعتها متميزة للغاية؛ لذلك، يجب أن تتطابق القيود مع خصائص المحفظة من حيث:

- i. السيولة
- ii. الأفق
- iii. التعليمات الإرشادية
- iv. الاحتياجات الفريدة

**ج. السياسات:** يجب أن تكون هناك سياسة استثمار شاملة لمحفظة الاحتياطيات مع هدف عائد إجمالي، ومستوى تحمل المخاطر ، وتخصيص استراتيجي للأصول بين شرائح المحفظة الثلاثة. سيتم تحديد ذلك بناءً على الحجم النسبي للسيولة أو متطلبات التدفق النقدي والالتزامات الخارجية و متطلبات محفظة تعزيز العائد. يمكن أن تشمل محفظة تعزيز العائد أيضًا جزءًا صغيرًا يتم إدارته بشكل احترافي من قبل مديري الأصول الدوليين للحصول على خبرة فئة معينة في إدارة بعض الأصول وأيضًا لنقل أفضل الممارسات في الأسواق العالمية إلى البنك المركزي اليمني عن طريق تقارير دورية توافي بها هذه المؤسسات البنك المركزي اليمني.

**يجب تصميم لكل محفظة سياسة استثمار مخصصة، وتشمل على وجه التحديد:**

- i. أهداف تخصيص الأصول.
- ii. قيود التنوع.
- iii. تحديد وضع المخاطر بشكل عام.
- iv. متطلبات توليد الدخل.

### **الجدول الزمني لمراجعة الأداء ومراجعة سياسة الاستثمار**

يجب إجراء مراجعات الأداء لكل محفظة فرعية، والمحفظة الإجمالية، على أساس دورة ربع سنوية مع مؤشرات الأداء الرئيسية، وعلى أساس سنوي، مع تحليل أداء مفصل وتبليغه للإدارة العليا للبنك المركزي اليمني ومجلس الإدارة.

تعتبر سياسة الاستثمار والمبادئ التوجيهية نفسها وثيقة إستراتيجية لاينبغي مراجعتها الا في نطاق دورة مدتها 3 سنوات بمجرد اعتمادها والموافقة عليها من قبل مجلس إدارة البنك المركزي اليمني. ومع ذلك، تكون ملاحق السياسة والإرشادات للمبادئ التوجيهية التكتيكية المتوافقة مع الإستراتيجية، قابلة للمراجعة كل ستة أشهر، ولا تحتاج إلى موافقة مجلس إدارة البنك المركزي اليمني، بل فقط تصديق من لجنة الاستثمار.

### **مقاييس الأداء والقواعد المعيارية**

يمكن أن تقتصر مقاييس الأداء في البداية على مجموعة من مؤشرات الأداء الرئيسية للعائدات والمخاطر لكل فئة من المحافظ. في وقت لاحق، يمكن إضافة تحليلات أكثر تعقيدًا. وتكون العملة المعيارية للمحفظة هي الدولار الأمريكية في البداية، والتي يمكن تغييرها لاحقًا إلى سلة من العملات. وينبغي اختيار معيار قياسي لكل محفظة فرعية، والذي يمثل على أفضل وجه الهدف والمخاطر وأجال الإستثمار للمحفظة. على سبيل المثال، بالنسبة لمحفظة السيولة/التدفقات النقدية قصيرة الأجل، يمكن أن تكون

أذون الخزانة المريكبية لمدة عامين. بالنسبة لمحفظة الالتزامات متوسطة الأجل، تكون أذون الخزانة المريكبية لمدة عشر سنوات، ولمحفظة تعزيز العائد، مؤشرات السندات الحكومية باركليز أو جي بي مورغان (الأسواق العالمية أو الناشئة اعتمادًا على تخصيص الأصول المختار لهذه المحفظة الفرعية).

### إرشادات لإعادة التوازن

يجب وضع إرشادات لإعادة التوازن في التخصيص الاستراتيجي للأصول بين جميع المحافظ الفرعية الثلاثة لمطابقة التغييرات في العوامل التي تؤثر على الهدف الأساسي الذي تتطابق معه هذه المحفظة الفرعية. لكل شريحة من الشرائح أو المحافظ الفرعية، ينبغي أيضًا وضع إرشادات لإعادة التوازن، والتي تتضمن إرشادات انتهازية تكتيكية تصاعدية لإعادة التوازن للاستفادة من فرص السوق. وينبغي أن تتضمن أيضًا إرشادات حول موجبات إدارة المخاطر لإعادة التوازن، مثل تخفيض التصنيف الائتماني، أو انخفاض سيولة أداة ما، أو أزمة مالية في فئة الأصول أو البلد أو البلدان المصدرة.





# ECONOMIC RECOVERY & LIVELIHOODS PROGRAM (ERLP)-YEMEN

## FX AUCTIONS POLICIES, PROCEDURES, REGULATIONS AND TRANSITIONAL ARRANGEMENTS

### ANNEX 2

June 2021

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## **I. GENERAL PROVISIONS**

### **I.1. Definitions**

The terms and expressions used in this regulation shall have the same meanings assigned thereto in the Law of the Central Bank of Yemen (CBY) No. (14) 2000; the Banking Law No. (38) 1998; the Law No. (21) 2009, amended by Law No. (16) 2009, regarding Islamic Banks; and the Republican Decree No. (20) 1995, regarding Money Changers, as amended by Republican Decree No. (15) 1996.

### **I.2. Scope**

This regulation shall apply to all eligible commercial, Islamic, and specialized banks and any branch of a foreign financial institution operating in the banking sector. This regulation shall also apply to eligible licensed money exchange companies and financial institutions licensed under the Law of the Central Bank of Yemen and/or by the instructions and regulations contained therein to participate in FX auctions. The designated platform for FX auctioning is the Refinitiv platform, with transitional arrangements in place until full implementation by all auction participants outlined in this regulation.

### **I.3 Objectives**

This regulation aims to achieve the objectives of the CBY, per the Law of the Central Bank of Yemen (CBY) No. (14) 2000, to promote a sound banking system, improve the transparency and effectiveness of foreign currency trading, use market mechanisms to determine the exchange rate, and provide foreign currency during periods when the interbank market is not capable of doing so. While the CBY may intervene when needed, its main role is regulatory, and its overall objective is to develop the interbank FX market rather than be a key market player. The purpose of CBY interventions will also be to maintain the macro-level stability of the Yemeni Riyal exchange rate against foreign currencies. This regulation further aims to regulate FX activities of foreign currency, including mechanisms of verifying daily sales and purchases in accordance with allowed transactions and taking into consideration laws against money laundering and terrorist financing.

## **CRITERIA AND PROCEDURES**

- I.3.** The Central Bank of Yemen Foreign Reserves Management & External Banking Operations Directorate shall hold FX auctions according to a pre-announced and strictly adhered to schedule. This will ensure that the signaling and price discovery auction mechanisms remain robust and promote market confidence.
- I.4.** The CBY shall send invitations to FX auctions via the online Refinitiv system per the provisions specified in Attachment (1). If a scheduled auction falls on an official holiday, it shall be held instead on the business day preceding the holiday.

- I.5. The CBY may also announce extraordinary auctions within the normal course of efforts to achieve its overall FX stabilization objectives.
- I.6. Eligible bidders of the auction are banks and money exchange companies operating under a special license from the CBY and in accordance with the criteria specified in the instructions issued by the Central Bank of Yemen to participate in the auction.
- I.7. Bidding will use the Refinitiv online platform. The CBY may bid on behalf of entities that do not have a Refinitiv platform but solely in accordance with a strictly controlled process that ensures the integrity of the auction. However, in the medium term, all bidders are expected to have direct access to the platform.
- I.8. Non-banking financial companies, money exchange companies, and individuals not licensed to participate in auctions may participate exclusively through commercial banks, which may bid on their behalf per the provisions of specialized agreements.

## **REQUIREMENTS FOR ENTERING AUCTIONS**

- I.9. Bidders shall meet the following requirements to participate in auctions:
  - I.9.1. Submit buy/sell bids in line with auction guidelines either directly on the Refinitiv platform or through the CBY if placing their bids on their behalf.
  - I.9.2. Provide the Central Bank of Yemen with information regarding the purpose to which the purchased foreign currency will be used, according to the data shown in Attachment (2). If the foreign currency is to be used to acquire goods, these must be included in the published list of goods approved to request foreign currency.
  - I.9.3. Prepare accurate daily and monthly statements of the bank's or money exchange company's foreign currency positions at the beginning of each day and/or month, according to the instructions of the Central Bank of Yemen as stipulated in Attachment (3). These position statements shall be submitted to the CBY in advance of the auction date.
  - I.9.4. Bidders from licensed money exchange companies shall request commercial banks to obtain financial coverage of their participation in the auction. Money exchange companies shall provide to the CBY, along with the bidding sheet and the bank's coverage letter, in accordance with Attachment (4).
  - I.9.5. Money exchange companies are prohibited from participating more than once in any given auction. Each such company must submit a written undertaking to the CBY, in accordance with Attachment (5), stating that it shall submit its bids in the auction covered by one commercial bank exclusively. Multiple participations in a single auction by such companies are not permitted due to the multiplicity of coverage from commercial banks.
  - I.9.6. Commercial banks covering a qualified money exchange company's bids in the auctions shall submit a letter of authorization to the Central Bank of Yemen authorizing the CBY to settle the money exchange company's bank accounts from their participation in the auction from the money exchange companies' bank accounts at the Central Bank of Yemen, in accordance with Attachment (4).

- 1.10. The amount of each buy/sell bid shall not exceed or be less than the limit specified by the Central Bank of Yemen in the Auction Announcement Attachment (9).
- 1.11. Commercial banks shall enter into agreements with non-banking financial institutions, money exchange companies and exchange institutions eligible to participate in the auction in order to submit the number of bids defined in the auction call as per Article (2.5) of this regulation.
- 1.12. Commercial banks and money exchange companies must notify the Central Bank of Yemen on a daily basis of all foreign transactions performed during any day.
- 1.13. Once the banks or money exchange companies submit their bids on the Refinitiv platform or submit their bid to the Central Bank of Yemen to input on their behalf, they shall not have the right to cancel or alter their bids.

## **CANCELLING BIDS**

- 1.14. The Central Bank of Yemen shall not allow any bank or company that failed to comply with the provisions of Article (3) of this regulation to participate in the auction.
- 1.15. The Central Bank of Yemen shall decline any bids that fail to comply with the provisions of Article (3) of this regulation.
- 1.16. The Central Bank of Yemen reserves the right to cancel individual bids and/or auctions if it deems that the banks or money exchange companies submitted non-market or collusive bids in the auction.
- 1.17. The Central Bank of Yemen shall notify those banks or money exchange companies whose bids were canceled either via the Refinitiv platform or, if the CBY bid on their behalf, directly and immediately after auction adjudication.

## **2. AUCTIONING**

- 2.1. Auctions shall begin at 10:00 and finish at 12:30 local time on the announced dates.
- 2.2. Auctions shall be submitted according to the forms referred to in Attachment (2) if the CBY is bidding on behalf of the institution submitting the bid. Otherwise, bidders shall submit directly on the Refinitiv platform if they have access.
- 2.3. Fulfilled **buy bids** shall be identified as follows:
  - 2.3.1. Attested bids shall be ordered from the highest price to the lowest price.
  - 2.3.2. Attested bids shall be fulfilled at the highest price until the stock of foreign currencies available for sale runs out. If the total amount of fulfilled bids exceeds the foreign currency amount available for sale on a particular day, each bid fulfilled at the lowest price shall be satisfied in proportion to the total number of bids submitted on the same price.
- 2.4. Fulfilled **sell bids** shall be identified as follows:
  - 2.4.1. Attested bids shall be ordered from the lowest price to the highest price.
  - 2.4.2. Attested bids shall be fulfilled at the lowest price until the stock of foreign currencies available for purchase runs out. If the total amount of fulfilled bids exceeds the amount of foreign currency available for purchase on a particular day,

each bid fulfilled at the highest price shall be satisfied in proportion to the total number of bids submitted on the same price.

- 2.5. The auction settlement for banks and money exchange companies in foreign currency shall be made pursuant to the banks' request, to the banks' accounts abroad, details of which are submitted to the Central Bank, no later than two days after the auction date (T+2) unless this includes a holiday at either the bank or the correspondent banks, in which case settlement occurs after the holiday.
- 2.6. The auction settlement for commercial banks for Yemeni currency shall be made within T+2 for bank accounts opened at the CBY, unless the period includes a holiday at the bank, in which case settlement occurs after the holiday.
- 2.7. The settlement of auction amounts of money exchange companies shall be made to the accounts of the commercial banks that provided a letter of undertaking to the CBY to settle the auction account of these companies on the accounts of commercial banks opened with the CBY per the provisions specified in Attachment (4).
- 2.8. Auction outcomes shall be published to banks and money exchange companies on the same day at the Central Bank of Yemen's webpage, in accordance with Attachment (6) of this regulation or, at the discretion of the CBY, using the Refinitiv template.

## **REFINITIV FOREIGN CURRENCY TRADING PLATFORM**

- 2.9. The trading system to be used for foreign currency trading by the CBY and market players is the Refinitiv platform.
- 2.10. The auction shall be held on the Refinitiv platform according to the guidelines outlined in this regulation.
- 2.11. In the event, the auction cannot start at 10:00 on the scheduled auction date due to *force majeure*, the Central Bank of Yemen may extend the duration of the auction.
- 2.12. The integrity of bids and governance of bidding parties and authorized staff to bid within each institution are guaranteed through robust controls in the Refinitiv auctioning platform.
- 2.13. The CBY must clear approved bidders and persons during the initial phase of bidder onboarding on the Refinitiv platform and after the onboarding in the event of any changes.
- 2.14. The CBY will, at a later stage, secure the market tracker functions on the Refinitiv platform, which enables copies of any interbank FX transactions on the system to be sent to the CBY. When it is reactivated, this will be a valuable source of deal flow in the FX interbank market, as will the envisaged implementation of SWIFT Scope, which provides similar information on FX market activity.

## **THE CENTRAL BANK OF YEMEN'S RIGHTS AND RESPONSIBILITIES**

- 2.15. The Central Bank of Yemen shall decide the amount of foreign currency to sell and/or buy in the auction and the type of auction.

- 2.16.** The value of a single sell/buy bid shall not exceed 25% of the auction value; banks and licensed companies will be notified of any change in this value at the appropriate time by email one business day prior to the auction, in accordance with Attachment (8).
- 2.17.** The Central Bank of Yemen shall maintain the confidentiality of banks' and companies' information and data relating to the auction.
- 2.18.** The Central Bank of Yemen, when required, shall reserve the right to cancel the auction per the provisions of this regulation and to hold the auction on another day. In such an event, banks shall be notified of the terms by email one day prior to the auction day.
- 2.19.** The Central Bank of Yemen shall process auction-related transactions by 13:00 of the auction day.
- 2.20.** The Central Bank of Yemen shall not bear any responsibility for violations of the provisions of Article (8.5) of this regulation.

## **RIGHTS AND RESPONSIBILITIES OF BANKS AND MONEY EXCHANGE COMPANIES**

- 2.21.** The bank shall provide accurate data concerning the auction and participate in the auction with integrity.
- 2.22.** The bank does not have the right to return or cancel its auctioning bid once the bid has been submitted.
- 2.23.** The bank shall notify the Central Bank of Yemen of any change in its authorized signatory authority and email address at least one day prior to the auction.
- 2.24.** The bank shall bid to buy foreign currency only for the purposes identified in the instructions issued by the Central Bank of Yemen under this regulation.

## **PENALTIES**

- 2.25.** The Central Bank of Yemen reserves the right to impose the following penalties on banks and money exchange companies that violate any provisions of this regulation:
- 2.25.1.** For the first violation of the provisions of this regulation, the Central Bank of Yemen shall deliver a notification to the concerned bank or money exchange company and impose a penalty according to Article (74) of Banking Law No. (38) 1998 and Chapter 6 of the Republican Decree No. (20) 1995 regarding Money Changers, as amended by Republican Decree No. (15) 1996. In such case, the bank's account at the Central Bank of Yemen shall be debited without any dispute (including for the money exchange companies that the banks covenant to cover).
- 2.25.2.** In case of repeated violation of this regulation, the Central Bank of Yemen shall disqualify the bank or the money exchange company from five auctions in a row and impose a penalty.
- 2.25.3.** In case of multiple violations of this regulation, the Central Bank of Yemen shall disqualify the bank or the money exchange company from participating in the auctions.



## **TRANSITIONAL PROVISIONS**

The auction guidelines and procedures used, and the pro forma templates in parallel to the Refinitiv platform (for the institutions that have access), shall remain in force only until all bidders procure access to the Refinitiv online platform and for a maximum of two years from the effective date of this regulation. The bidding requirements shall only be fulfilled thereafter through the Refinitiv platform.

Board of Directors – The Central Bank of Yemen

### **Attachments and Forms:**

1. Attachment No (1): Auction Announcement Form
2. Attachment No (2): FX Auction Bidding Sheet
3. Attachment No (3): Daily and Monthly FX Position Reports
4. Attachment No (4): Commercial Banks Coverage Letter Form
5. Attachment No (5): Commitment Letter Form
6. Attachment No (6): Auction Results Form
7. Attachment No (7): Paper Confirmation of Bid Form
8. Attachment No (8): Notification Form

**ATTACHMENT (I): ANNOUNCEMENT OF INVITATION TO FOREX AUCTION SESSIONS**

The Central Bank of Yemen hereby announces an FX Auction for eligible banks and money exchange companies. The details and terms of the auction are as follows:

Day/date	Time (from-to)	Currency	Sell bid	Buy bid	Fixed price	Multiple price	Value of auction	Maximum limit

**Central Bank of Yemen**

**Auction Terms:**

- All bidders must comply with the terms of the auction and fulfill the necessary requirements as specified in the FX Auction Regulation.

- For auctions in foreign currencies, bids shall be submitted in an amount not less than 100,000 units of foreign currency and its multiples.
- For auctions in Yemeni Riyals, bids shall be submitted in the amount of 1,000,000 Yemeni Riyals and its multiples.
- Each bank or money exchange company is entitled to submit a predetermined maximum number of bids in each auction.
- A commercial bank that has entered into an agreement with a money exchange company or individual that is not eligible to participate in the bid may submit an additional predetermined number of bids on behalf of these companies and individuals.
- Each money exchange company must obtain financial coverage from a commercial bank for each auction and attach the coverage letter with the bid form.
- Each commercial bank must authorize the Central Bank of Yemen to settle, from the commercial bank's accounts at the CBY, the account of the bank or the money exchange company's bids that it covered in the auction
- Incomplete bids or bids not in compliance with the terms of the auction pursuant to the FX Auction Regulation and related instructions will be canceled, and the bank or company shall be notified of such cancellation.

**ATTACHMENT (2): FOREX AUCTION BIDDING FORM –**

**I. FOREX AUCTION BIDDING FORM - BANK**

For the auction held on ..... Commercial bank name...../

Buying amount: Selling amount:

TABLE 1. BUY BID					
BID NO.	AMOUNT/CURRENCY	BUY PRICE	PURPOSE		
			Customer name	Imported item	Beneficiary name and country
1					
2					
3					
Total					

TABLE 2. SELL BID		
BID NUMBER	AMOUNT/CURRENCY	SELL PRICE
1		
2		
3		
Total		

The undersigned hereby authorize the Central Bank of Yemen to withdraw from our Yemeni Rial or foreign currency accounts in the Bank to settle our obligations from bidding in this auction.

**First authorized signatory:**

**Second authorized signatory:**

**Stamp:**

## 2. FOREX AUCTION BIDDING FORM - MONEY EXCHANGE COMPANY

For the auction held on ..... Money exchange company name: .....

Name of the commercial bank issuing financial coverage .....

Buying amount:

Selling amount:

TABLE 1. BUY BID					
BID NO.	AMOUNT/CURRENCY	BUY PRICE	PURPOSE		
			Customer name	Imported item	Beneficiary name and country
1					
2					
3					
Total					

TABLE 2. SELL BID		
BID NUMBER	AMOUNT/CURRENCY	SELL PRICE
1		
2		
3		
Total		

We hereby attach the letter of coverage issued by the above mentioned bank to guarantee our participation in the auction and authorize the Central Bank of Yemen to settle our bids from its accounts with the CBY.

**First authorized signatory:**

**Second authorized signatory:**

**Stamp:**

**ATTACHMENT (3): STATEMENT OF BALANCES IN FOREIGN CURRENCIES AND YEMENI RIYAL**

At bank/company/ ..... during the month of ..... 20.....

Units in thousands

	Balances at the beginning of the month					Balances at the end of the month				
	Cash	Checks	Local banks	External banks	Total	Cash	Checks	Local Banks	External Banks	Total
<b>USD</b>										
<b>GBP</b>										
<b>Euro</b>										
<b>SAR</b>										
<b>AED</b>										
<b>QR</b>										
<b>KD</b>										
<b>BHD</b>										
<b>OMR</b>										
<b>Other</b>										
<b>Value of foreign currency in USD</b>						<b>Value of foreign currency in USD</b>				
<b>Yemeni Riyal</b>										

Signature of Responsible Director:

Stamp:

**ATTACHMENT (4): BANK UNDERTAKING TO COVER MONEY EXCHANGE COMPANY ENTERING FOREX AUCTION**

For the auction held on ...../.....

Name of Commercial Bank Undertaking Coverage .....

Name of Money Exchange Company.....

No.	Auction Date	Buy Bid	Sell Bid	Amount value	Currency	Nature of the undertaking
1						Check
2						Guarantee
3						Cash deposit
Total						

**Commercial Bank:**

**Authorized signatory:**

**Stamp:**

**Date:**

**ATTACHMENT (5):MONEY EXCHANGE COMPANY UNDERTAKING IN FOREX AUCTION**

**For the auction held on.....**

**Money Exchange Company.....**

**Commercial Bank Undertaking to Cover.....**

The aforementioned money exchange company licensed to participate in the Forex Auction hereby undertakes to participate in the auction once with a single bid form and covered by one specific commercial bank. It pledges not to participate multiple times in a single auction through financial coverage from more than one bank in a single auction,

**Money Exchange Company:**

**Signatory:**



**ATTACHMENT (6): FX AUCTION RESULTS PUBLISHING FORM**

For the auction held on .....

**TABLE 1: Forex Buy Bid**

<b>Accepted Price</b>	
<b>Auction Volume</b>	
<b>Total Accepted Bids</b>	
<b>Number of Participants</b>	
<b>Coverage Ratio</b>	
<b>Allocation Ratio</b>	
<b>Average Auction Price</b>	
<b>Highest Auction Price</b>	
<b>Lowest Auction Price</b>	

**TABLE 2: Forex Sell Bid**

<b>Accepted Price</b>	
<b>Auction Volume</b>	
<b>Total Accepted Bids</b>	
<b>Number of Participants</b>	
<b>Coverage Ratio</b>	
<b>Allocation Ratio</b>	
<b>Average Auction Price</b>	
<b>Highest Auction Price</b>	
<b>Lowest Auction Price</b>	

Central Bank of Yemen

**ATTACHMENT (7): BIDDING CONFIRMATION FORM**

For the auction held on .....

No.	Name of Bank or Money Exchange Company	Name/Title of Bank or Money Exchange Company Employee	Signature of Bank/ Money Exchange Company Employee	Signature of CBY Employee	Time of Submission
1					
2					
3					
4					
5					
6					

**Stamp:**

**Foreign Currency Department**

**External Banking Operations Directorate**

**Central Bank of Yemen**

**ATTACHMENT (8): NOTIFICATION FORM**

For the auction held on .....

Pursuant to the provisions of Article 7.3 of this regulation, we hereby notify participants that the amount of one sell and/or one buy bid in the auction shall not exceed ..... (amount/currency) and shall not be less than ..... (amount/currency) from ...(date).

Central Bank of Yemen



# ECONOMIC RECOVERY AND LIVELIHOODS PROGRAM (ERLP) IN YEMEN

## FOREIGN EXCHANGE DATA WAREHOUSE REPORT

### ANNEX 3

June 2021

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## FOREIGN EXCHANGE DATA WAREHOUSE REPORT

The data system at the CBY is quite outdated. While the system in place was minimally adequate for rudimentary FX management needs, a significant upgrade is needed to implement modern data practices, including updating products and processes in the Reserves Management Department and a new Data Warehouse System (DWH). The current system, for example, cannot easily retrieve necessary information, produce standard reports containing important portfolio parameters and historical data, or generate the needed charts and graphics. A DWH provides the means to produce clean, accurate, timely and integrated data.

For the Central Bank of Yemen, it will permit reserve management users to quickly access in one place critical data from a number of sources. Thanks to its capacity to store historical data, it also will allow the CBY reserves management team to analyze different periods and trends to make predictions about the future.

More generally, a DWH allows a central bank to:

- build or mine historical data
- make timely decision making on risk management
- conduct market research and analysis and generate routine reports
- provide consistent information on various cross-functional activities
- conduct ad-hoc reporting and query
- integrate multiple sources of data to reduce stress and load on the core system
- reduce total turnaround time for analysis and reporting
- store a large amount of historical data.

To date, the MEG/YESS project initiated several steps toward building a new automated DWH for the CBY by transferring the historical data to a new Excel-based system for more automated tracking and reporting. This will be followed by full linkage of the Excel-based database to the Refinitiv platform for automated updates. This report outlines the additional work on the key products and processes needed for adequate reserves management data warehouse systems and recaps the concrete progress made in the action plan to install a modern data warehouse at the CBY.

Significant obstacles remain to better-practice FX reserves management at the CBY. Among these is the lack of appropriate technology platforms such as Refinitiv (only one terminal is currently available and more are needed); Bloomberg (just being installed on a trial phase now); SWIFT Scope; and DMFAS. Additionally, there are no existing interfaces between these technology platforms once they are procured and linked. Nor are there output reports to support FX reserves functions from the DWH.

The DWH needs to support more than three main core functions (the *FX Management Proposed Organizational Structure & Job Descriptions* describes all core functions in detail). Here, only the DWH linkages to the front office, middle office and back office with basic proposed functions are delineated. The end state of CBY usage of the DWH is envisaged to surpass these basic functions, although they serve as a good starting point.

The front office is responsible for carrying out day-to-day analysis, transactions, and management of funding, risk, cash and liquidity. These responsibilities require real-time reporting and a modern database to manage transactions and monitor foreign exchange risk.

The Data Warehouse Project transforms raw and/or operational data into useful information for business analysis; this is done by extracting the data from the core system of the CBY into the DWH to help in future planning and business analysis. The most critical issue is to ensure that data extracted from the core system are credible for the required analysis, which must be tested manually. The pilot applications employing Microsoft Excel were used for this purpose in Q1 through Q2 to run verifications with the core system data before pushing the installation for the real DWH. Implementation of the data warehouse design to make the transformation to an Oracle database commenced in Q3 and is envisaged to be completed over the next two quarters.

The data warehouse is a tailored product designed specifically to CBY requirements and will act as a second “brain” for the FX Reserves Management Department alongside the disaggregated reports of the subsystems. The individual platforms procured in Q2 have been used in parallel to develop the custom-designed DWH in Q3; these could continue to be used in a disaggregated manner until the DWH is completed and able to replicate them.

Data quality and feeds from the various technological platforms were recently added for DWH implementation and are collating DWH requirements based on best practices and from interviews with users.

The business requirement information was collected following the acquisition of the new platforms via interviews with both the senior management and staff of the FX Reserves Management Department. Intensive engagement with staff was needed to cover all requirements needed for building the tailored applications for the DWH system. To this effect, the ERLP Senior IT Expert spent a significant amount of time in Aden in Q3.

The core system was checked for data integrity, which is vital to the implementation of the DWH. A chart of accounts was mapped and verified in extensive detail to avoid any reporting errors. System integrity and core application compatibility were investigated in preparation for the new system to ensure that data backup and extraction are carried out correctly. Reports generated from the system were checked for accuracy, and operations analysis was further checked to see how data could be uploaded in an automated manner, what interfaces are needed and the frequency of updates.

Reporting information covering key metrics includes standard reports that could be modified subsequently: the daily blotter, profit and loss tracking, counterparty limits, and the value at risk for the outstanding positions. In this regard, if accounts are not correctly mapped, the front office will not receive correct balances for FX transactions, which adversely impacts its capacity to take corrective actions to mitigate the risk of any potential exposure. Testing core pilot applications will help establish an accurate data collection system and support accurate planning and decision-making activities.

Interest rate-related reports such as the borrowing and placement report, cash flow sheet, and capital markets portfolio are extremely important and must be accurate. Also essential are data feeds from the DMFAS system to help with the management of the liability-driven or liability-matching segregated portfolio. Reports should be viewed at the beginning of the year, giving visibility on liquidity forecasting for the coming year on a month-by-month basis and annually for the year. Daily reports need to present a clear picture of liquidity for the day and the coming period and should provide accurate net interest income and expense figures for the tactical portfolio allocations, needed trades and any rebalancing that is to be taken. Ensuring data accuracy will generate liquidity gap reports that will help mitigate interest rate risks, develop accurate interest rate shock tests, and produce the duration report for the fixed income portfolio.

Activities undertaken in Q1 and Q2 to aid with the Q3 implementation include the following:

ACTION	ACTIVITIES PERFORMED	PURPOSE/OBJECTIVE/ OUTCOME
Analyze CBY foreign reserves reporting processes and structure	Investigate key CBY business processes and needs related to FX management activities	Helps identify reporting needs, as knowledge of business processes provides insight into facts and dimensions
Analyze the core system of the CBY, which is outdated with no manual	Collect details of the operating system in use; determine the functionality supported and the reports generated; Identify reports the system is not able to generate	Evaluates the relationship between the core system and DWH. Shortcomings in this relationship can be addressed to improve the quality of data and help inform future reporting needs
Check reports that are generated from the core system for each sub-division of the reserves department	Interact with different user groups of the sub-divisions to understand their work profile, reporting requirements, points of satisfaction, and dissatisfaction with the operational system	Helps build an understanding of different user types, the issues they cannot address with the existing operating system and their expectations from the data warehousing solution
Analyze operational system data structure	Investigate data input forms of the application, physical document formats and database structure of the application to understand which data items are properly maintained	Helps in identifying data items that are useful for data warehousing but are missing in the operational system
Analyze data requirements of the CBY business managers	Interact with business managers to determine the type of queries needed to operate	Helps inform the design of a DWH and the type of measurements to be maintained
Identify key business processes to build the required database sheets, using either Excel or Microsoft Access at this stage	Interact with different user groups to determine the kind of data that is important in their division, and that needs to be analyzed	Determines the accuracy of tables and numeric measurements the CBY conducts
Identify the update frequency required of these reports	Assess the required periodicity of reporting requirements	Helps identify real-time data warehousing requirements and frequency of Extraction Transformation and Loading (ETL) execution

Development commenced in Q3 on the following pilot applications:

PRODUCT	DESCRIPTION	AVAILABILITY	REQUIREMENT
FX Blotter	Keeps track of FX positions and risk management	Available	Excel sheet for position-keeping and historical transactions
Profit and Loss (P&L) Tracking	Real-time cost of FX positions and P&L mark-to-market (MTM)	Available	Excel sheet for real-time MTM to show P&L
Limits Sheet	Keeps track of counterparty limits availability	Not available	Excel sheet for limit monitoring
Capital & Money Market Portfolio	Summary of holdings	Not available	Keep track of holdings
Borrowings/placements	List of funds borrowed and placed with financial institutions	Not available	Excel sheet to keep track and calculate the cost or Portfolio Analysis Tool software
Daily balance sheet	Shows assets and liabilities, along with balances	Not available	Monitor and track assets and liability movements
Value at Risk for FX position	FX position risk management	Not available	Portfolio Analysis Tool software
Cashflow sheet	Monitor daily, weekly and monthly cash flow to manage liquidity needs	Available	Be able to manage liquidity needs. An Excel sheet will be required. Portfolio Analysis Tool software needed.
Daily exchange rate	Sets the daily exchange rate for all the CBY sectors	Available	Excel sheet for daily upload and distribution
Income statement	Shows daily, weekly and monthly P&L	Not available	System report

The middle office oversees the risk management, research and compliance departments. This department's risk analysts and managers work closely with the front-office team to share information on



asset classes and financial markets. The middle office also manages compliance risk, ensuring bank practices are consistent with legislation and industry standards. For proper risk monitoring and control, the middle office requires access to the front office's database to identify potential risks, breaches in limits and other risk control issues.

PRODUCT	DESCRIPTION	AVAILABILITY	REQUIREMENT
Liquidity Gap	Maturity or repricing mismatches between assets and liabilities, specifically where more assets than liabilities are maturing or repricing in a given period	Not available	Excel sheet or Portfolio Analysis Tool software will be required to monitor the gap
Duration for Fixed-Income Holdings	Expresses the sensitivity of the bond price to changes in income	Not available	Excel sheet to measure the bond sensitivity or Portfolio Analysis Tool software
Interest Rate Shock reports	MTM based on 5, 50 or 100 basis points shift in the term structure	Not available	Excel sheet showing the effect of interest rate movement or Portfolio Analysis Tool software
Net Open Positions and limit utilization	FX Position Monitoring for breaches	Not available	Excel sheet to monitor the real-time position for breaches and to keep historical movement or Portfolio Analysis Tool software
Capital Market Summary	Summary of holdings	Not available	Sheet with all holdings also showing historical holdings or Portfolio Analysis Tool software
Capital Market Operations	Gain/Stop Loss Trigger Status (Daily); portfolio status and MTM	Not Available	MTM Excel sheet for a fixed income portfolio
Value at Risk (VAR) for FX position	Measures and quantifies the level of financial risk	Not available	Excel sheet to calculate VAR or Portfolio Analysis Tool software
Value at Risk for Capital Market Portfolio	Measures and quantifies the level of financial risk	Not available	Excel and/or system-generated sheet to calculate VAR
Foreign Reserve level	Shows the level of reserves and its historical movement	Not available	System-generated report plus Excel database for a historical movement

The back office administers and supports the front office. Its primary responsibility is to confirm, verify, settle and account for transactions. These responsibilities require an interconnected database to prepare a daily funding sheet, outgoing and incoming transfers and checks to clear and monitor any transaction in the CBY NOSTRO accounts.

Outstanding balances of NOSTRO accounts are a separate issue. Currently, no report can show outstanding real-time balances. While an account mapping was recently done by the Team (and balances appear to be accurate), this mapping is still in process.

PRODUCT	DESCRIPTION	AVAILABILITY	REQUIREMENT
Funding sheet	Reports all cash flow from all CBY operations departments	Not available	An Excel sheet to track daily and projected cash flow for three weeks ahead
NOSTRO & Vostro accounts sheet	Keeps real-time track of balances and historical account movement	Not available	An Excel sheet and/or core system report that would keep the historical movement of those accounts

Other areas under the reserves management function that require database and core system reporting are outlined below:

PRODUCT	DESCRIPTION	AVAILABILITY	REQUIREMENT
Letter of Credit	Tracks, approves, and maintains a database for all transactions	Basic	A fully automated sheet that supports all tasks
Financial institutions	Keeps track of all limits available and how often they are changed	Not available	Sheet to keep track of limits, history and requests
Intervention committee	Market intervention to support the Riyal	Not available	Monitor, track and calculate P&L for the intervention process
External debt management	Keeps track of historical and future payments	Basic	Cash flow sheet along with DMFAS system

### Implementing the DWH Database

Building and implementing the abovementioned database and processes commenced in Q3, with the Team beginning to implement the major components of the Data Warehouse Project. Specifically, after verifying CBY requirements and building the key products outlined above, steps were taken to start implementing the Data Warehouse Project. These steps are described below:

STEP	DESCRIPTION
Feasibility	<p>Financial costs (hardware, software and personnel), expected advantage, and a project plan for a data warehousing project must be clearly outlined and understood by all</p> <p>This was clearly communicated and discussed in Q3</p>
Specify Requirements & Analysis	<p>Business objectives using the account mapping Excel sheets of historical data was determined in Q3</p>
Requirements	<p>Core System and user servers or cloud</p> <p>Hardware and software were selected in Q3; in the coming quarter, these will need to be integrated across servers, storage methods, and user software tools</p>
Design	<p>Collect and analyze information, identify core business processes from earlier discussions with the CBY team. This was finalized in Q3, and the design adapted to cater to the new technologies procured (Refinitiv additional applications, Bloomberg) or expected to be procured in the near term (SWIFT Scope, etc.)</p>
Implement	<p>Project implementation began, incorporating flexibility into the data system so that changes may be made to the DWH if necessary (for example, new sources of data, new interfaces, or new output interfaces or reporting)</p>
Test	<p>Testing of generated reports by the DWH is envisaged for the coming two quarters</p>
Skills & Training	<p>A preliminary assessment of the skill sets of the CBY team was conducted in Q3 to determine whether they are adequate in the data integration and modeling areas and whether staff, are adequately trained on new technologies and approaches and have worked on similar projects (both in domain and scale). Gaps were fed into the proposed organizational structure job descriptions (see <i>FX Management Proposed Organizational Structure &amp; Job Descriptions</i>).</p>
Maintain	<p>Scheduling of maintenance requirements every quarter once database implementation is complete will be necessary.</p>

**Feasibility Analysis Elements**

Costs

The core costs of data warehousing are relatively simple to estimate. They include the costs of associated hardware, software and personnel expenses (both in-house and consultants). Typical cost categories are as follows

Hardware	<ul style="list-style-type: none"> <li>· Disk storage</li> <li>· Processor</li> <li>· Network</li> </ul>
Software	<ul style="list-style-type: none"> <li>· Extraction, transformation and loading of software</li> <li>· Database management software</li> <li>· Metadata software</li> <li>· End-user data access tools</li> </ul>
Personnel	<ul style="list-style-type: none"> <li>· IT staff (e.g., database administrators, data modelers)</li> <li>· Business and end-user personnel</li> <li>· Consultants</li> </ul>

Benefits

The major benefit categories include the following:

Datamart consolidation	<ul style="list-style-type: none"> <li>· Reduction of multiple decision support platforms</li> <li>· Hardware and software cost savings</li> <li>· Operational efficiencies</li> </ul>
Time savings	<ul style="list-style-type: none"> <li>· Less time spent by IT personnel downloading data for users</li> <li>· Less time spent by IT personnel writing queries for users</li> <li>· Less time spent locating data</li> <li>· Less time spent by analysts responding to requests for information</li> </ul>
More and better information	<ul style="list-style-type: none"> <li>· A DWH can systematically maintain historical data</li> <li>· Users' gain the ability to analyze data in new ways</li> <li>· Increased ability to think of the business in new ways</li> </ul>
Personnel savings	<ul style="list-style-type: none"> <li>· Redeployment of IT personnel</li> <li>· Faster company growth without adding personnel</li> <li>· Redeployment of operational personnel to activities producing higher value</li> </ul>
Improved decision making	<ul style="list-style-type: none"> <li>· Decisions based on facts rather than intuition</li> <li>· Faster decision making</li> <li>· Better ability to analyze alternatives</li> <li>· Better ability to identify and act on problems</li> </ul>

Business process improvement	<ul style="list-style-type: none"> <li>· Redesign of jobs</li> <li>· Procurement savings</li> <li>· Shorter business cycles</li> <li>· Ability to identify and correct problems with business processes</li> </ul> <p>· A DWH will make it easier to monitor and control the security and safety of the data</p>
Support for strategic business objectives	<ul style="list-style-type: none"> <li>· Faster response to changing market conditions</li> <li>· Increased market share</li> <li>· Improved speed to market with new products</li> <li>· Supply chain integration</li> </ul>
Master database	<ul style="list-style-type: none"> <li>· All reporting would be based on a single database rather than on individual repositories of data</li> <li>· The ability to combine data from all the other databases in the environment: Effectively, the DWH becomes the master source for all users to obtain data</li> <li>· With access to a single master database, a report writer avoids having to master multiple databases or merge and/or match datasets and accounts</li> </ul>

The outcome of the above-updated analysis in Q3 results in an estimated cost for Data Warehouse implementation, Oracle database, software licenses, hardware requirements and other items of between USD 150,000 and USD 200,000.



# ECONOMIC RECOVERY AND LIVELIHOODS PROGRAM (ERLP)-- YEMEN

## FX MANAGEMENT PROPOSED ORGANIZATIONAL STRUCTURE & JOB DESCRIPTIONS (ENGLISH)

### ANNEX 4

June 2021

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# I. FX RESERVES MANAGEMENT - PROPOSED ORGANIZATIONAL STRUCTURE

Figure I represents the existing FX Reserves Management (FXRM) Department organizational structure. Currently, the department is called the Department of Foreign Operations. However, we are proposing that the department be called FX Reserves Management and Foreign Banking Operations.

**Figure I: FXRM Current Organizational Structure**

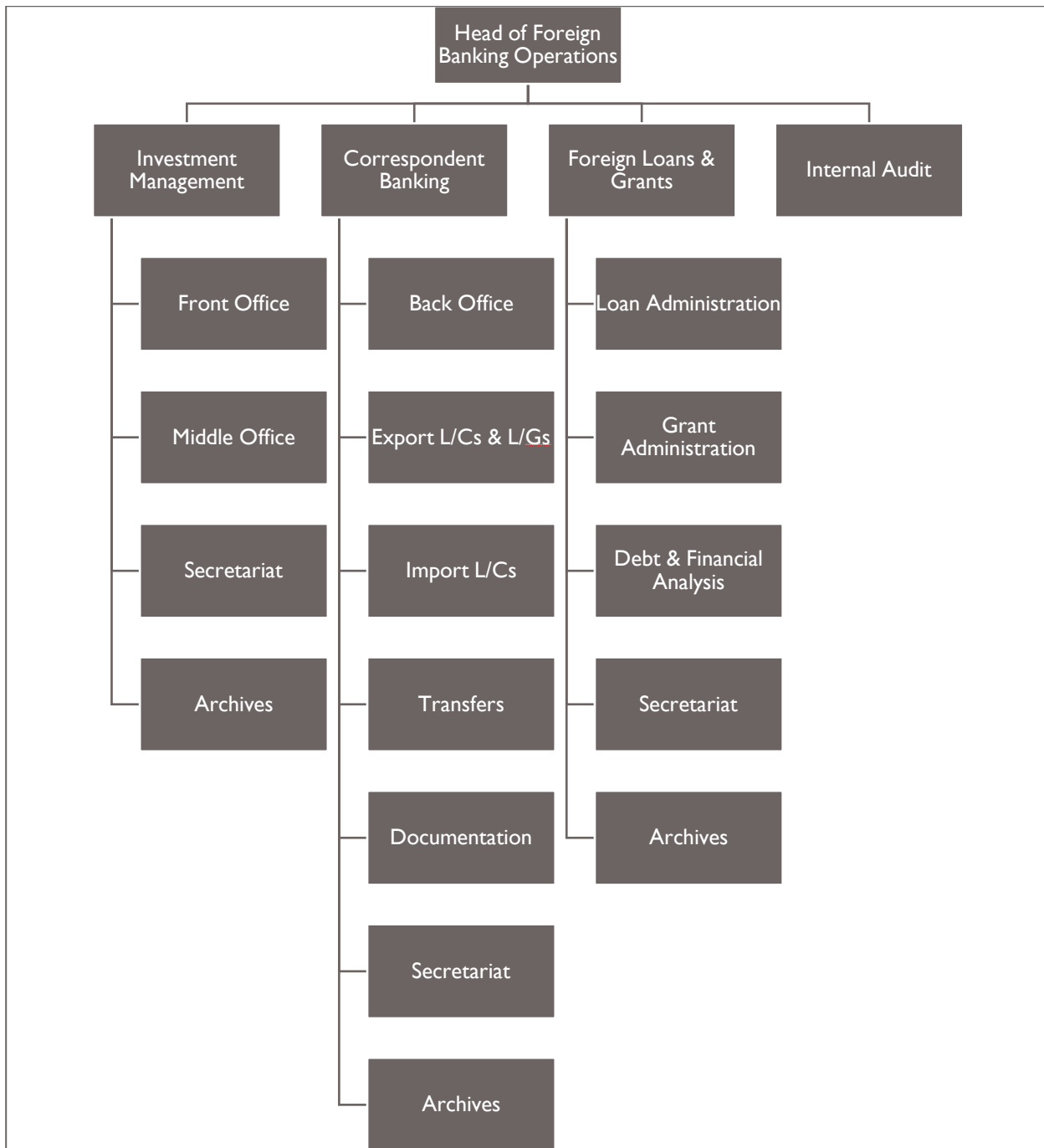
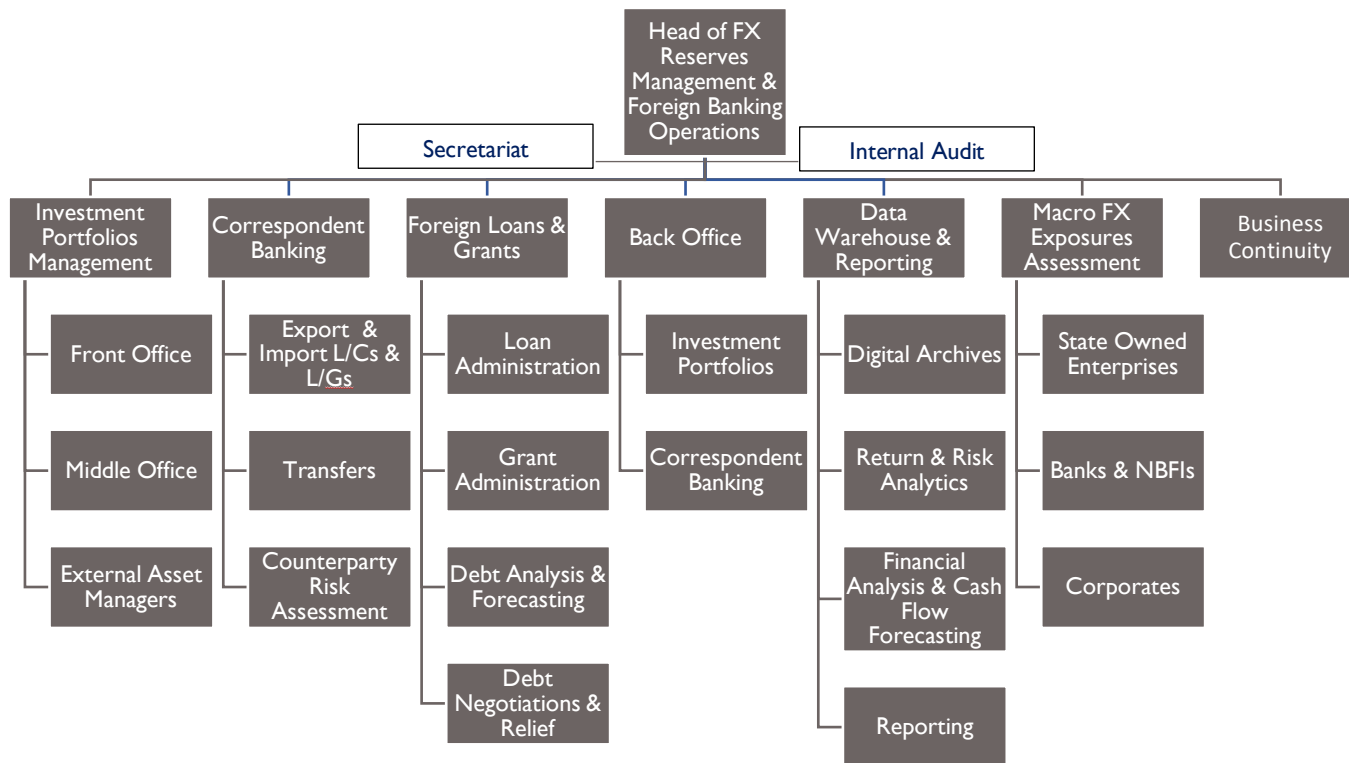




Figure 2 represents the proposed FXRM Department organizational structure. We are proposing that the department be renamed the FX Reserves Management and Foreign Banking Operations.

**Figure 2: FXRM Proposed Organizational Structure**



The proposed organizational structure has seven divisions: i) Investment Portfolios Management, ii) Correspondent Banking, iii) Foreign Loans and Grants, iv) Back Office, v) Data Warehouse and Reporting, vi) Macro FX Exposures Assessment, and vii) Business Continuity.

The first four of these proposed divisions exist in the current structure. However, changes to the organization are proposed, namely the creation of the three latter divisions (v, vi, vii)

- i) Investment Portfolios Management
 

This division is proposed to consist of a front office and a middle office. ERLP proposes the addition of an external asset managers (oversight) sub-division. The change looks to the future when the CBY starts building its reserves management balances and implementing the proposed investment strategy, which includes minor allocations to external asset managers in line with global best practices. The new sub-division would be responsible for managing the contractual relationships with the external asset managers, fee negotiations, reporting and oversight of mandated targets, and returns and risks. It is proposed to move the archives to the Digital Warehouse Division, and the secretariats of each division consolidated at a centralized level for the entire FXRM department.
- ii) Correspondent Banking
 

This division is proposed to consist of export and import L/Cs and L/Gs as one merged sub-division rather than the two sub-divisions in the existing structure; transfers; and a newly formed sub-division for counterparty risk assessments, where it is envisaged that dedicated analysts will be monitoring specifically periodic financials and all relevant data analytics sources on correspondents. In the financial

services industry, an analyst on average, is in charge of anywhere from seven to 15 financial institutions to cover. As the CBY reengages with the outside world, the number of correspondents it is engaged with will increase significantly, and therefore dedicated resources to monitor these relationships will be crucial. An unfavourable correspondent banking relationship would result in two undesirable risks: financial risk if the counterpart defaults and reputational risk about the capacity of the CBY to assess counterparty risk.

This proposal does not conflict with middle-office functions but will mean it focuses on limit implementation and breach monitoring rather than assignment. The correspondent banking division is the first natural recipient of correspondent bank financials and other information: Placing this sub-division in the same division avoids duplication or loss of information across divisions.

iii) Foreign Loans and Grants

For this division, the addition of one sub-division is proposed to oversee debt negotiations and debt relief. Yemen is about to embark on many discussions on this topic and having dedicated resources to cater to these would help optimize renegotiated terms in an informed manner.

iv) Back office

This new division is proposed to handle both the Investment Portfolios Management transactions back office and the correspondent banking back office to ensure full organizational segregation and sufficient resources to cover the aforementioned expected growth in transactions volume as reserves grow exponentially.

v) Data Warehouse and Reporting

This proposed new division would act as a second “brain” and “memory” store for the FXRM department's four recommended sub-divisions. The first two are Digital Archives, centralized archives for the whole department that are digitized and can be accessed by anyone with the proper authority access level, and a Return and Risk Analytics sub-division, which would use all the historical data and forecasts uploaded to produce the required return and risk analytics for the proposed new investment portfolio policy framework and its three segregated portfolios.

A third would be a Financial Analysis and Cash Flow Forecasting sub-division. As all data feed into the data warehouse, this sub-division would be positioned to most efficiently produce short-term, medium-term, and long-term cash flow forecasts to inform reserves management decision making. It would also feed such forecasts to other divisions and continuously obtain updates in a two-way flow of information. It would also present its reports through the head of the division and then to the Investment Committee to provide the necessary information for its short-term, medium-term, and long-term decision-making processes for optimal reserves portfolio management.

Finally, the fourth and last sub-division for the new proposed Data Warehouse and Reporting Division would oversee periodic and ad hoc reporting. This sub-division would produce all reporting on FXRM portfolios on a periodic basis, including any requested ad hoc reports.

vi) Macro FX Exposures Assessment

This division could be set up subsequently as it will be aggregating information on FX exposures at the macroeconomic level. These area exposures would ultimately result in requests to the Central Bank of Yemen to cover any shortfalls that might arise if the principal borrower is unable to provide the required foreign currency. The CBY, as the lender of last resort, will have to step in. If the CBY does not have a clear picture of the magnitude and maturity of these exposures, it could be faced with sudden requests for large FX outlays that were not forecasted or accounted for. It is proposed to have sub-divisions for assessing FX exposures of state-owned enterprises, banks and non-bank financial

institutions, and corporate entities. A large exposure by a state oil and gas corporation, for example, could translate into a liability (implicit or explicit) for the Central Bank of Yemen to cover.

- vii) The seventh and last proposed new addition to the FXRM department is a business continuity sub-division. While a function at the level of the CBY would cover CBY-wide business continuity, the sensitivity of FXRM activities and foreign banking relations means that it is crucial also to have a dedicated in-department division for this. It is proposed that this division handle all backup and disaster recovery planning to ensure no losses occur due to lack of secondary trading venues or data not being backed up on servers, for example, and to ensure that the integrity of the DWH is not compromised. Trading disruption — for instance, during periods of market volatility — could cause high losses.

We propose that this sub-division also have specifically tailored protocols and processes to respond to disruption to any FXRM activity and ensure minimum impact on business continuity.

## II. SAMPLE JOB DESCRIPTIONS BY JOB FAMILY

### SAMPLE JOB DESCRIPTION: ROLE - HEAD OF DIVISION

Department:

Division:

Section/Team:

Reports to:

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#### JOB SUMMARY:

The main mandate of this role is to manage and supervise all activities related to FXRM, including managing all operational procedures and supervising daily activities.

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MAJOR DUTIES AND RESPONSIBILITIES	KEY PERFORMANCE INDICATORS
1. Supervise all divisions' activities and manage all work performed in accordance with objectives and work procedures	Monitoring on a regular basis
2. Review all activities on a daily basis and direct employees and follow up on their work achievements according to objectives and procedures	Monitoring on a regular basis
3. Propose action plan and implementation procedures for divisions, evaluate any deviations and provide recommendations for remedial actions	Monitoring on a regular basis
4. Review daily and annual reports on work performed in accordance with roles, procedures and action plans; provide recommendations to top management.	Monitoring on a regular basis
5. Conduct annual studies for the division, including developing systems and programs, and recommend improvements to meet best practices	Monitoring on a regular basis
6. Conduct an annual meeting with employees to discuss and evaluate work processes and work performance, business continuity and	Monitoring on a regular basis

strengths and weaknesses in division performance	
7. Recommend training development for division staff to enhance their skills and competencies to meet work requirements	Monitoring on a regular basis
8. Approve all fees and fines assigned to clearance members.	Monitoring on a regular basis
9. Monitor the clearance system to ensure procedures are aligned with CBY policies and instructions	Monitoring on a regular basis
10. Follow up with counterparts with key exposures	Monitoring on a regular basis
11. Follow up on work procedures, including account restrictions on banks and other institutions	Monitoring on a regular basis

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**MINIMUM RELATED EDUCATION, EXPERIENCE AND SKILLS**

**Academic:**

Recognized degree in business, accounting, or other relevant fields, including CFA, CAIA, and/or Master’s degree from an accredited organization.

**Related Work Experience (type and years)**

Experience in banking and treasury operations, including at least eight years of experience in a related role; sound analytical skills

**Technical Skills:**

- Working knowledge of MS Office Suite, Outlook
- Behavioral skills including good interpersonal and communication skills, both written and verbal

**Knowledge & Experience:**

- Expert-level understanding of work and judgment
- Strong organizational and administrative skills

**Interpersonal skills:**

Effective communication and speaking ability in both Arabic and English

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## Sample Job Description: Role - Back Office Manager

### REPORTING RELATIONSHIPS:

**Department:** FX reserves management

**Division:**

**Section/Team:**

**Reports to:**

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### JOB SUMMARY:

The CBY should have in place several operational controls to minimize financial and reputational damage from fraud. These include the separation of front and back-office operations. The back office serves several vital functions, including recording and confirming trades transacted by the front office and providing the internal control mechanism of segregation of duties. The checks and balances provided by the back-office function help management supervise the trading activities conducted by the front office. A properly functioning back office will help ensure the integrity of the financial institution and minimize operations, settlement, and legal risks.

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MAJOR DUTIES AND RESPONSIBILITIES	KEY PERFORMANCE INDICATORS
1. Execution and confirmation of investment deposits (new or rollover and interest transfers) contracted by the front office using SWIFT messages	Monitoring on a regular basis
2. Prepare the CBY reserves management balances statement (assets and liabilities) in USD	Monitoring on a regular basis
3. Establish connections with new correspondent banks to open and close new accounts or for record-keeping	Monitoring on a regular basis
4. During phase one of the back-office reform, introduce reporting and working flow cycle; reports to cover basic activities carried out by the back office at this stage of activities	Monitoring on a regular basis

5. Execution and confirmation of FX buying and selling transactions committed by the front office using SWIFT messages.	Monitoring on a regular basis
6. Manage procedures and guidelines for foreign accounts funding and transfers	Monitoring on a regular basis
7. Manage procedures to account for interest accrued on credit facilities granted to the government	Monitoring on a regular basis
8. Manage procedures for checking and reconcile corresponding bank accounts.	Monitoring on a regular basis
9. Establish relations with new and old corresponding banks to maintain, open or close accounts	Monitoring on a regular basis
10. Execute accounting entries for investment transactions for both CM and MM, account management costs, and interest payments	Monitoring on a regular basis
11. Make accounting entries for portfolio evaluations and other international portfolios	Monitoring on a regular basis
12. Carry out special settlement procedures for investment activities on PAT and match with the core system	Monitoring on a regular basis

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## MINIMUM RELATED EDUCATION, EXPERIENCE AND SKILLS

### **Academic:**

Recognized degree in finance, accounting, or other relevant fields; CFA, CAIA or equivalent and/or Master's degree from a reputable institution.

### **Related Work Experience (type and years)**

At least seven years of experience in a financial management or Treasury-related role, with sound analytical skills.

### **Technical Skills:**

- Familiarity with treasury trading systems and technologies
- Working knowledge of MS Office Suite, Outlook
- Behavioral skills including good interpersonal and communication skills, both written and verbal

### **Knowledge & Experience:**

- Expert-level understanding of risks in treasury products and their measurement
- Experience in handling Treasury middle office functions for multiple asset classes
- Proven track record in business partnering with other business functions and experience working closely with finance and other professionals within the business
- Strong organizational and administrative skills

### **Interpersonal skills:**

Effective communication and speaking ability in both Arabic and English

# Sample Job Description: Role – Middle Office Analyst

**REPORTING RELATIONSHIPS:**

**Department:** FX Reserves Management

**Division:**

**Section/Team:**

**Reports to:**

**JOB SUMMARY:**

The middle-office function, also known as Dealing Support, is part of the Foreign Reserves and Investment management. This unit is responsible for measuring risk and return and for maintaining front office systems. Valuation, performance, and risk information are provided to the front office operation and to senior management on a daily basis. In other words, the middle-office acts as a police officer, ensuring proper implementation of the written procedures. The middle office reports directly and independently to the corresponding assistant governor overseeing the division.

MAJOR DUTIES AND RESPONSIBILITIES	KEY PERFORMANCE INDICATORS
A. <u>Quantitative and Credit Analysis Unit:</u>	
1. Analyze market data and conditions and evaluate alternative investment strategies	Monitoring on a regular basis
2. Design and apply templates for measuring risk allocation and financial instrument performance at the strategic and tactical levels as Strategic Asset Allocation (SAA) and Tactical Asset Allocation (TAA).	Monitoring on a regular basis
3. Organize and prepare working papers, reports, and studies for the Investment Committee weekly meetings.	Monitoring on a regular basis
4. Monitor changes at external correspondent banks that deal with the CBY	Monitoring on a regular basis
5. Review reports published by credit rating agencies	Monitoring on a regular basis



6. Regularly retrieve and review financial data from external correspondent banks	Monitoring on a regular basis
7. Develop scientific and practical methodologies to establish credit limits for correspondent banks.	Monitoring on a regular basis
8. Maintain and update database o correspondent banks	Monitoring on a regular basis
9. Review credit limits	Monitoring on a regular basis
<u>B. Performance and Risk analysis and measurement Unit</u>	Monitoring on a regular basis
10. Prepare reports and performance analysis for each portfolio	Monitoring on a regular basis
11. Measure performance and analyze outputs	Monitoring on a regular basis
12. Verify financial instrument prices on a daily basis; extract and generate performance reports from electronic systems and send them to the relevant departments	Monitoring on a regular basis
13. Analyze and compare investment portfolio performance with benchmark; define surplus sources, documenting any deviation from the performance index	Monitoring on a regular basis
14. Collect financial instrument prices and the indices synthesis from Bloomberg terminal or Thomson Reuters and insert any new bond prices to the indices	Monitoring on a regular basis.
15. Monitor credit limits and report and document breaches	Monitoring on a regular basis
<u>C. Cash Unit</u>	
16. Collect and maintain data for developing analysis of actual and forecasted cash flow; exchange information with other related units at the CBY to provide information about the cash flow	Monitoring on a regular basis
17. Monitor and track cash payments on the basis of reserve account changes	Monitoring on a regular basis
18. Develop effective methodologies for forecasting the cash flow	Monitoring on a regular basis

19. Supply data and analytical support for foreign reserve ranking	Monitoring on a regular basis
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## MINIMUM RELATED EDUCATION, EXPERIENCE AND SKILLS

### Academic:

A Bachelor's degree in either finance or accounting; CFA, CAIA or equivalent; and/or Master's degree from a reputable institution.

### Related Work Experience (type and years)

A minimum of seven years of senior-level experience in banking with exposure to middle office, market risk and/or treasury systems

### Technical Skills:

- Familiarity with treasury systems
- Sound analytical skills.
- Good software proficiency, i.e., in MS Office and any core banking, Treasury and/or risk system
- Behavioral skills including good interpersonal and communication skills, both written and verbal

### Knowledge & Experience:

- Expert-level understanding of risks in Treasury products and their measurement
- Experience in handling Treasury middle office functions for multiple asset classes
- Professional qualification and/or certification (CA, CFA, FRM or MBA in finance) would be an added advantage

### Interpersonal Skills:

- Effective communication and speaking ability in both Arabic and English
- Ability to read and write analyses, communicate reports, and attend meetings of the Investment Committee and with the manager of the reserves management and the staff

## Sample Job Description: Role – FX Reserves Manager

### REPORTING RELATIONSHIPS:

**Department:** FX Reserves Management

**Division:**

**Section/Team:**

**Reports to:**

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### JOB SUMMARY:

The Reserves Manager should have prior experience with a central bank’s reserves management or banking or corporate treasury management. The overall task of the Reserves Manager is to oversee and supervise the daily activities of all units of foreign reserve and investment management and ensure that the institution’s investment policy is effectively implemented. The Reserves Manager has direct control over some units of the Reserves and Investment Management Department, including the front and middle offices. However, some departments are not controlled by the Reserves and Investment manager, but it is directly related to the department like the back-office management for segregation of duties purposes.

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MAJOR DUTIES AND RESPONSIBILITIES	KEY PERFORMANCE INDICATORS
1. Supervising, directing, and evaluating the investment of safe financial instruments, including but not limited to treasury bonds of major manufacturing countries and major currency deposits in banks and international financial institutions; also directing the allocation process of the investment portfolio to mitigate risks	Monitoring on a regular basis
2. Supervising, directing, and evaluating the short-term forested cash flow; contacting correspondent banks to provide required liquidity to cover emergency needs of the CBY	Monitoring on a regular basis

<p>3. Monitoring money market and FX prices and significant changes in the markets; directing research; communicating regularly with and responding to CBY-authorized account managers at correspondent banks</p>	<p>Monitoring on a regular basis</p>
<p>4. Rebalancing the investment portfolio, including by identifying investments to be bought or sold (although the internal portfolio manager or front office director shall be responsible for determining prices and executing transactions in line with CBY investment policy</p>	<p>Monitoring on a regular basis</p>
<p>5. Regularly monitoring, researching, and analyzing market information and economic sectors to develop insights, projections, and fresh investment strategies</p>	<p>Monitoring on a regular basis</p>
<p>6. Preparing working papers, reports, and studies for meetings of the Investment Committee</p>	<p>Monitoring on a regular basis</p>
<p>7. Monitoring developments in external institutions, actors and correspondent banks that deal with the CBY, including by periodically reviewing their credit ratings</p>	<p>Monitoring on a regular basis</p>
<p>8. Supervising and directing the preparation of performance reports and analysis for each portfolio in the light of the adopted criteria and general performance of the CBY's foreign reserves</p>	<p>Monitoring on a regular basis</p>
<p>9. Providing recommendations and studies for CBY senior management, including on the need to modify the Yemeni Riyal</p>	<p>Monitoring on a regular basis</p>

exchange rate in response to or anticipation of domestic and international fiscal events	
10. Supervising the implementation of the investment policy in coordination with the Investment Committee, including Investment Committee members, missions, and authorities	Monitoring on a regular basis
11. Supervising and directing the opening of deposit or current accounts with the approval of senior management, including evaluating whether and where to open current accounts with external banks	Monitoring on a regular basis
12. Responsible for depositing and allocating the reserves across the Correspondent banks in light of the relevant policies.	Monitoring on a regular basis
13. Investing in the reserves as instructed by the Investment Committee and with approval of Foreign Banking Operation Sector Deputy, and later presenting transactions to the Committee and Deputy	Monitoring on a regular basis
14. Responsible for annual performance evaluations of department staff	Monitoring on a regular basis
15. Defining the tasks and work procedures for the foreign reserves and investment staff, ensuring the staff effectively execute their tasks and duties, and managing the proper application of defined and approved procedures	Monitoring on a regular basis

<p>16. Responsible for other duties as defined by the Foreign Banking Operation Sector Deputy.</p>	<p>Monitoring on a regular basis</p>
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**MINIMUM RELATED EDUCATION, EXPERIENCE AND SKILLS**

**Academic:**

Preference for CFA, CAIA and/or Master’s degree in finance, accounting, or economy

**Related Work Experience (type and years)**

At least ten years of experience in reserves and investment management, corporate or banking treasury management, or portfolio management

**Technical Skills:**

Working knowledge of treasury systems, MS Office Suite, and analytics software.

**Interpersonal Skills:**

Effective communication and speaking ability in both Arabic and English



# ECONOMIC RECOVERY & LIVELIHOODS PROGRAM (ERLP)—YEMEN

## FX RESERVES MANAGEMENT BEST PRACTICES TRAINING PROGRAM-- CENTRAL BANK OF YEMEN

### ANNEX 5

June 2021

**DISCLAIMER** This report was produced for review by the United States Agency for International Development. It was prepared by the USAID Economic Recovery and Livelihoods Program (USAID/ERLP) implemented by The Pragma Corporation. The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government

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## **I. PROGRAM OBJECTIVES**

The objective of this tailored program on FX Reserves Management Best Practices for the CBY is to provide capacity building on the pillars of modern portfolio management and enable the formulation and pilot application of a CBY reserves management policy. The program proposed herein is tailored to the needs of the CBY based on the diagnostic study conducted under the YESS program and recent insights provided by the CBY teams, including updates on recent changes in Yemeni market dynamics on the ground.

## **II. PROGRAM STRUCTURE**

The program comprises two parts: (i) Modern Portfolio Management & Global Capital Markets and (ii) FX Reserves Management CBY Applications, with the latter based on Yemen-specific data inputs provided by the CBY. The program is proposed to run over two days in January 2020 and two days in February 2020, distributed across nine sessions as follows:

### **a. MODERN PORTFOLIO MANAGEMENT & GLOBAL CAPITAL MARKETS (JANUARY 2020)**

#### **Day I**

Session One: Global Capital Markets Structural Update

Session Two: Modern Portfolio Management & Diversification

Session Three: Basic Features of Fixed Income Securities & Valuation

#### **Day II**

Session Four: Valuation of Fixed Income Instruments & QE

Session Five: Fixed Income Portfolio Management & Risk Analysis

### **b. FX Reserves Management - CBY Applications (February 2020)**

#### **Day I**

Session Six: Fixed Income Advanced Risk Analytics & Performance Attribution

Session Seven: Reserves Management Policy & Instruments Global Best Practice

## Day II

Session Eight: Advanced Portfolio Analytics Application to Yemen

Session Nine: Reserves Management Policy Applications to Yemen

### III. PROGRAM LEARNING OUTCOMES

At the end of the program, participants are expected to understand, calculate, synthesize, and apply modern portfolio management analytics, techniques, and policies to the practice of reserves management at the CBY. Applications will be in line with international best practices and have a Yemen-focused implementation strategy.

### IV. SUGGESTED BACKGROUND READINGS

#### Textbooks

Fabozzi, F. J. (2013) *Bond Markets, Analysis and Strategies*. 8<sup>th</sup> ed. Boston: Pearson Higher Education.

Bodie, Kane, Marcus (2011) *Investments & Portfolio Management*. 9<sup>th</sup> ed. McGraw-Hill Education.

## Other Suggested References

Aliber, Robert Z., 2011, "Financial Turbulence and International Investment," BIS Papers No 58, in Portfolio and Risk Management for Central Banks and Sovereign Wealth Funds, Proceedings of a Joint Conference Organized by the BIS, ECB and World Bank, Basel.

Allen, William, Gabriele Galati, Richhild Moessner, and William Nelson, 2017, "Central Bank Swap Lines and CIP Deviations," De Nederlandsche Bank Working Paper No. 566, Amsterdam.

Ben-Bassat, A (1984): "Reserve-currency diversification and the substitution account," Princeton Studies in International Finance no 53, Princeton University, International Finance Section.

Bernadell, C, J Coche, FX Diebold and S Manganelli (eds) (2004): Risk management for central bank foreign reserves, European Central Bank.

Borio, C (2008): "The financial turmoil: a preliminary assessment and some policy considerations," BIS Working Papers, no 251, March, and forthcoming in the Bank of Spain's Financial Stability Report.

Borio, C, J Ebbesen, G Galati and A Heath (2008): "FX reserve management: elements of a framework," BIS Papers, no 38, March.

Cardon, P and J Coche (2004): "Strategic foreign allocation for foreign exchange reserves," in C Bernadell, J Coche, FX Diebold and S Manganelli (eds), Risk management for central bank foreign reserves, European Central Bank.

Eichengreen, B and DJ Mathieson (2000): "The currency composition of international reserves: retrospect and prospect," IMF Working Paper no 00/131, 1 July.

El-Erian, M (2007): "Asset-liability management in emerging economies," in J Johnson-Calari and M Rietveld (eds), Sovereign Wealth Management, Central Banking Publications, London.

Jeanne, O and R Rancière (2006): "The optimal level of international reserves for emerging market countries: formulas and applications," IMF Working Paper no 6/229, October.

Knight, MDK (2006): "International reserve diversification and disclosure," BIS Speeches, 8 September.

Roger, S (1993): "The management of foreign exchange reserves," BIS Economic Papers, no. 38, July.

Wooldridge, PD (2006): "The changing composition of official reserves," BIS Quarterly Review, September, pp 25–28.



# ECONOMIC RECOVERY & LIVELIHOODS PROGRAM (ERLP) – YEMEN

TRIP REPORT, CAIRO MISSION  
JULY 4-8, 2021

ANNEX 6

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USAID/Yemen - Economic Recovery & Livelihoods Program (ERLP)

The Pragma Corporation, 116 East Broad Street, Falls Church, VA 22046

## **SUBJECT: TRIP REPORT, MISSION TO CAIRO, EGYPT, July 4th to 8th, 2021.**

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### **I. INTRODUCTION**

A mission to the Refinitiv (Reuters) regional training center in Cairo, Egypt, by ROYG Central Bank of Yemen (CBY) senior officials took place July 4 - 8, 2021. The purpose of the trip was to attend a three-day workshop on Refinitiv applications, with a specific focus on foreign exchange (FX) auction applications and simulations. The visit provided the CBY team with a hands-on demonstration prior to the system-wide live simulation planned to be rolled out in Yemen late this summer.

The Refinitiv training was preceded by a one-day Pragma-led visit to the Central Bank of Egypt (CBE), which included meetings with leading CBE counterparts and followed by a two-day workshop on reserves management, global best practices, delivered by the Pragma Senior FXRM advisor Dr. Nashwa Saleh, with support from a local short-term consultant, Germin G. Benyamin, for case studies administration.

The visit enabled knowledge transfer from the CBE to the CBY and the sharing of lessons learned, particularly concerning managing FX Reserves during periods of currency volatility and in situations where a parallel market exists. The visit provided further impetus to speed up the pace of reform implementation after the CBY FXRM representatives observed first-hand practices at the CBE and participated in the session delivered by Mr. Amr Maged, Treasurer, Banque du Caire (previously CBE FXRM Portfolio Manager during the reform phase). Mr. Maged gave a hands-on practitioner's view of the Egyptian reserves management reform story and evolution of practices from the early 2000s through the present.

Additionally, a workshop on DMFAS 6 was delivered to the CBY team by ERLP Sr Public Debt Management Expert Dania Al-Osta on the prerequisites and requirements needed for DMFAS 6 installation. The workshop covered the important aspects of the system, explaining how the system is used to manage debt and other financial instruments throughout the phases of their life cycles: registration, mobilization of funds, and debt service operations. It also introduced the reporting and analysis features.

The debt management system is a key element to optimal reserves management for several reasons:

- i. It provides accurate estimates of the outstanding debt stock and obligations at the level of the sovereign, which have to be covered by foreign reserves (this includes details such as loan terms and conditions, interest rates and benchmarks, installments payable, grace periods or moratoria if any).
- ii. DMFAS output will be linked to the reserves data warehouse;
- iii. The ERLP proposed prototype reserves management policy is based on a segregated portfolio approach with three sub-portfolios: one for liquidity purposes, one for liabilities matching and the third for yield enhancement and long-term investment purposes.

***Annexes I to IV include the detailed I) Mission Agenda; II) Presentations by the CBE on July 4th; III) Refinitiv Training Program Outline; IV) Global Best Practices Reserves Training Program Outline; V) DMFAS Presentation; and VI) Mission Daily Attendance Record.***

## II. SUMMARY MISSION OVERVIEW & TAKEAWAYS

### CBE ENGAGEMENT AND DAY I DISCUSSIONS

The sharing of experiences by the CBE on the first day of the mission was very useful for the CBY team to motivate and reinforce the key development activities that ERLP is implementing on the ground in the area of FX Reserves Management. The CBY team was able to discuss at length tangible details linked to every aspect of FX and Reserves Management Practices in Egypt over the last two decades. The focus on what worked well, what did not work well, and the cost of reforms was crucial for shedding light on the detrimental impact of multiple currency practices and the lack of a clear, transparent market-clearing mechanism for FX resource pricing and allocation.

A very thorough step-by-step walkthrough was provided of the two devaluations that took place in Egypt over the last two decades. This included the market microstructure implications, the repercussions for the banking sector, the link to the implementation of countercyclical prudential regulatory measures (bank FX net open position temporary allowed deviations), and regulatory oversight tightening for violators to ensure compliance, especially at exchange house operators.

The message was clearly demonstrated that controlling market prices is not possible by any central bank, and the cost to reserves of attempting to do so is prohibitive. Market order comes naturally only when currency pricing is determined by supply and demand factors. All measures around the mechanics of implementing the devaluation and managing the transition period are all to serve the achievement of a market-clearing price (albeit with some band of trading around it).

A discussion of the necessary backstop facilities and macro structural reforms that had to be implemented alongside the currency devaluation exercise during both devaluations was also outlined.

Special emphasis was given to using the (Refinitiv) FX auctioning system as a tool to achieve the above and how it is used to re-build the FX interbank market as a platform. Once the interbank market becomes liquid and capable of catering to agent demand, the central bank goes back to its more traditional role of market regulator for the FX interbank market, rather than the provider of liquidity in the FX market via an auctioning system.

Finally, a detailed discussion was conducted on the use of DMFAS at the CBE to inform cash-flow forecasting for reserves management purposes and its role within the national debt management committee periodic meetings.

The CBE discussion tied in very well across the board with the ERLP program activities and recommendations. The CBY team also appreciated that the proposed recommendations by ERLP aligned to global best practices and that they were tailored to achieve the optimal output for Yemen, given the existing preconditions. In some instances, the recommendations made by the ERLP team are only just beginning to be implemented by the CBE, such as allocations to a yield enhancement segregated portfolio. CBE has not implemented a liability-driven or liability-debt-matching dedicated portfolio, although this is carried out in a non-segregated manner through the duration buckets of the core reserve's management portfolio. There have been discussions regarding implementing a fully segregated portfolio for liability matching at some point in the future.

The discussion around the organization of FXRM activities at the CBE compared to what has been

proposed by ERLP for the organizational structure of FXRM at the CBY achieved the same results in terms of endorsement messaging.

While OECD central bank best practices are much more developed than the CBE's, the CBE is highly regarded in terms of better-practices implementation for Yemen and the region. Therefore, this particular visit served as a key message of endorsement for all ERLP activities in this area and set the tone for the rest of the planned mission activities.

### **MISSION KICK-OFF DINNER**

This was hosted by one of the CBE sub-governors to greet the CBY counterparts on their first official day of the mission.

### **REFINITIV TRAINING ACTIVITIES**

Over the course of the second, third and half of the fourth day, the CBY officials attended the Refinitiv training on FX auctions, including a simulation for an auction with five banks in the environment of the system (i.e., not a live simulation with actual Yemeni banks at this stage). Details of how the CBY would bid on behalf of Yemeni banks if they are not part of the platform and the controls needed in this case were discussed. This is applicable until all banks could be integrated on the platform at some point in the future. Other auction mechanism details such as determining a maximum and minimum bid and auction adjudication rules were discussed.

Other training components of the overall Refinitiv application covered DWH, Front-Office applications, and useful constituents for Back-Office and Middle-Office use.

The detailed training agenda is provided in the Annexes to this Trip Report.

### **ERLP TRAINING ACTIVITIES ON FX RESERVES MANAGEMENT BEST PRACTICES**

The training program is attached as an annex. The material covered in this first part comprised the first three sessions, in addition to an organized session by Bloomberg (organized while on the ground with the Bloomberg regional team in Dubai), which was very useful, specifically covering front-office applications, portfolio risk metrics and stress testing. While some of the components of this application could be somewhat advanced, it provided motivation to achieve the end target even though this might not be implemented in the near term. It is crucial as the project builds capacity through the work with the counterparts to include forward-looking applications.

Mrs. Germaine Benyamin specifically provided a session on private-sector best practice asset management, investment committees and organization, and the use of external managers and monitoring of their mandates.

The ERLP Senior FXRM Policy Advisor and Mrs. Benyamin facilitated the two case studies: global fund asset management in a low yield environment (through the example of a pension fund case study and takeaways for FXRM) and investment analysis parameters using Turkey as a case study (for bonds to include in the FXRM portfolios and also how the outside world would view or analyze Yemeni exposure).



## ERLP TRAINING ACTIVITIES ON DMFAS BEST PRACTICES

Senior ERLP Debt Management Expert Mrs. Dania Ostah gave a dedicated workshop on DMFAS6.0. It included the prerequisites and requirements needed for DMFAS 6 installation. It also covered the important aspects of the system, explaining how the system is used to manage debt and other financial instruments throughout the phases of their life cycle: registration, mobilization of funds, and debt service operations. It also introduced the reporting and analysis features.

## MISSION CLOSING DINNER

The ERLP hosted the mission closing dinner at a traditional Egyptian venue where the substance of the material covered during the mission was recapped, and relationship building with counterparts continued.

## TRIP REPORT ANNEXES

- I. Mission Final Agenda
- II. Presentations by the CBE on July 4<sup>th</sup>
- III. Refinitiv Training Program Outline
- IV. Global Best Practices Reserves Training Program Outline;
- V. DMFAS Presentation; and
- VI. Mission Daily Attendance Record.

Agenda: July 4 – 8  
CBY Senior Officials Cairo Mission

Date	Time	Location	Car Pick-Up
July 4	9:30 AM – 4:00 PM	Meetings with the Central Bank of Egypt, 54 El Goumheriya Street	8:00 AM from Dusit Hotel New Cairo.
July 4	6:00 PM – 8:00 PM	Mission Kick Off Dinner Hosted by the CBE	Four Seasons Garden City.
July 5	10:00 AM – 4:00 PM	Refinitiv Training Day 1 Refinitiv New Cairo Offices	9:30 Am from Dusit Hotel New Cairo.
July 6	10:00 AM – 12:00 PM	Refinitiv Training Day 2 Refinitiv New Cairo Offices	9:30 Am from Dusit Hotel New Cairo.
July 6	12:00 PM – 4:00 PM	Passport Stamps and Entry Visas Verification Government Passport Offices in Abassiya (Arrivals from Yemen have to get their passports stamped from the offices in Abassiya)	12:00 PM from Refinitiv HQ
July 7	10:00 AM – 12:00 PM	Refinitiv Training Half Day 3 Refinitiv New Cairo Offices	9:30 Am from Dusit Hotel New Cairo.
July 7	12:30 PM – 5:00 PM	ERLP Best Practices Reserves Management Training  Half Day 1 - FX Reserves Management Best Practices Part I (N.S)  -Presentation by Mr Amr Maged, Head of Treasury Banque du Caire (previously senior official with the CBE FXRM department)  -Introduction to DMFAS (Dania Osta)	None, at Dusit Hotel New Cairo Meeting Room.
July 8	9:00 AM – 5:00 PM	ERLP Best Practices Reserves Management Training  Day 2  -FXRM Reserves Management Best Practices Part II (N.S)  -Presentation by Bloomberg on Portfolio /Front Office and Risk Functions for Reserves Management	None, at Dusit Hotel New Cairo Meeting Room.

		-Presentation by Mrs. Germaine Benyamin, Best Practices in the Private Sector Fixed Income Portfolio Management	
	5:30 PM – 9:30 PM	Mission Closing Dinner hosted by ERLP	Naguib Mahfouz Restaurant, Khan El Khalili, Old Cairo
July 9		Cairo Tour for CBY Delegates Car reserved by ERLP team with the Dusit for this.	

**Useful contact numbers:**

Dr. Nashwa Saleh, Cairo cell: 0020 100 1838000

Mr. Karim Zaki Cairo Cell: 0020 100 020 1044

Dusit Hotel New Cairo: 00 20 2 2614 0000



البنك المركزي المصري  
قطاع العلاقات الخارجية

الإدارة المركزية للمكتب الخلفي

**The Central Back Office Department**

الإدارة المركزية للمكتب الخلفي هي إحدى إدارات قطاع العلاقات الخارجية وهي الإدارة المسؤولة عن تسوية وتنفيذ العمليات التي يقوم بها قطاع الأسواق الخاصة بإدارة الاحتياطي الأجنبي وسداد الالتزامات والمساهمات بالعملة الأجنبية إلى المؤسسات الدولية والإقليمية وسداد الالتزامات الخاصة بخدمة الإصدارات السيادية الدولية هذا بالإضافة إلى إعداد ونشر قائمة أسعار الصرف الرسمية للعملات الأجنبية مقابل الجنيه المصري.

تتكون الإدارة المركزية للمكتب الخلفي من ثلاث إدارات عامة :



## إدارة المكتب الخلفي

The Back Office for the Treasury Department

هي الإدارة المسؤولة عن تعزيز وتسوية عمليات الصرف الأجنبي وأسواق النقد وعمليات سوق رأس المال والريبو التي يقوم بها المكتب الامامي بقطاع الأسواق بالإضافة إلى عمليات خدمة الإصدارات السيادية وعمليات حساب الخزانة الموحد.

## المداهم السي فية تم تنفيذها داخل الإدارات المركزية

عمليات حساب  
الخزنة لموحد  
**TSA**

المطالبات  
**Interest  
claims &  
TMPG**

عمليات سوق  
رأس المال  
والربو  
**Fixed  
Income &  
Repo**

العمارة الخاصة  
لنشر البيانات  
الخاصة  
سندوق النقد  
الولي  
**SDDS  
IRFCL**

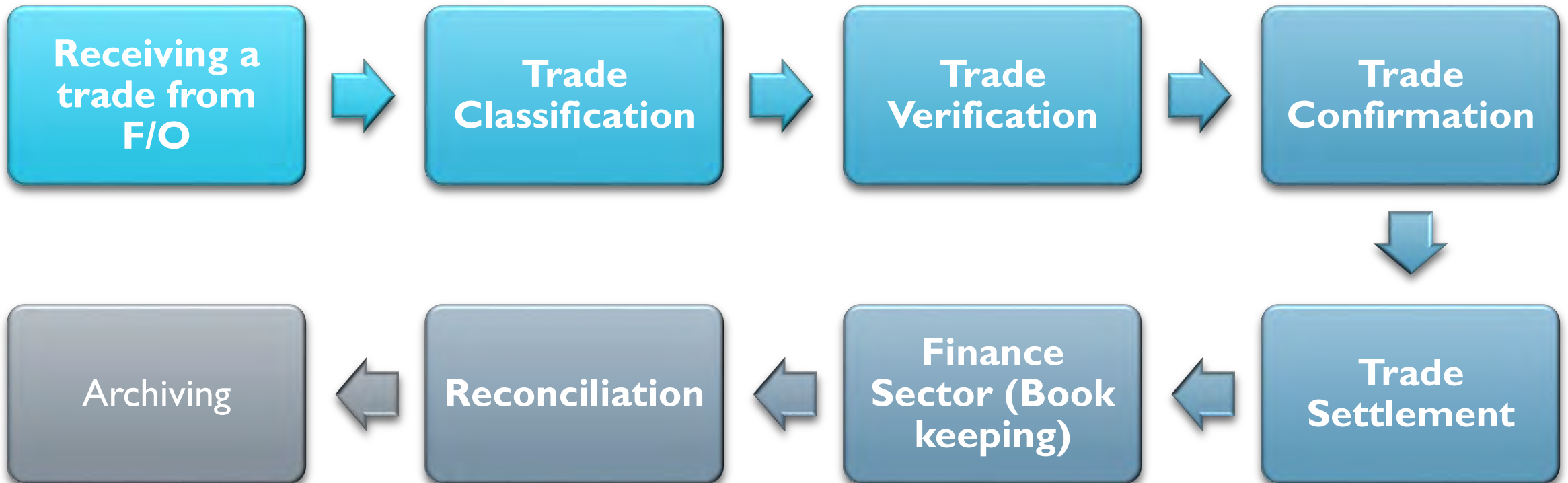
عمليات خدمة  
الإصدارات  
السرية  
**MOF  
Sovereign  
Eurobond  
s & T-Bills**

عمليات  
الصرف  
الأجنبي  
وأسواق النقد  
**Foreign  
Exchange  
& Money  
Market**

الالتزامات  
الدولية  
**Paris  
Club &  
IMF**



## Trade Life Cycle at the B/O



## Back Office Best Practices

### Segregation of Duties

- F/O & B/O
- Maker & Checker

### Staff

- Staff Selection
- Training (Upon hiring & continuous track)

### Automation

- STP Treasury system

### Operations Control

- 1<sup>st</sup> & 2<sup>nd</sup> lines of defenses)

### Documentation

- Procedures manuals

### Contingency

- Business Continuity Plan (BCP)

## Helpful Programs for mid-level to senior staff at the B/O

Back Office  
Operations  
Seminar -  
Banque De  
France , Paris

Payment and  
Securities  
Settlement  
Systems -  
Deutsche  
Bundesbank,  
Frankfurt

OSSP-AACB  
Forum on  
Central Bank  
Foreign  
Exchange  
Operations

Capital Markets  
Back Office  
Certification  
Program  
CAMBOC - ATTF

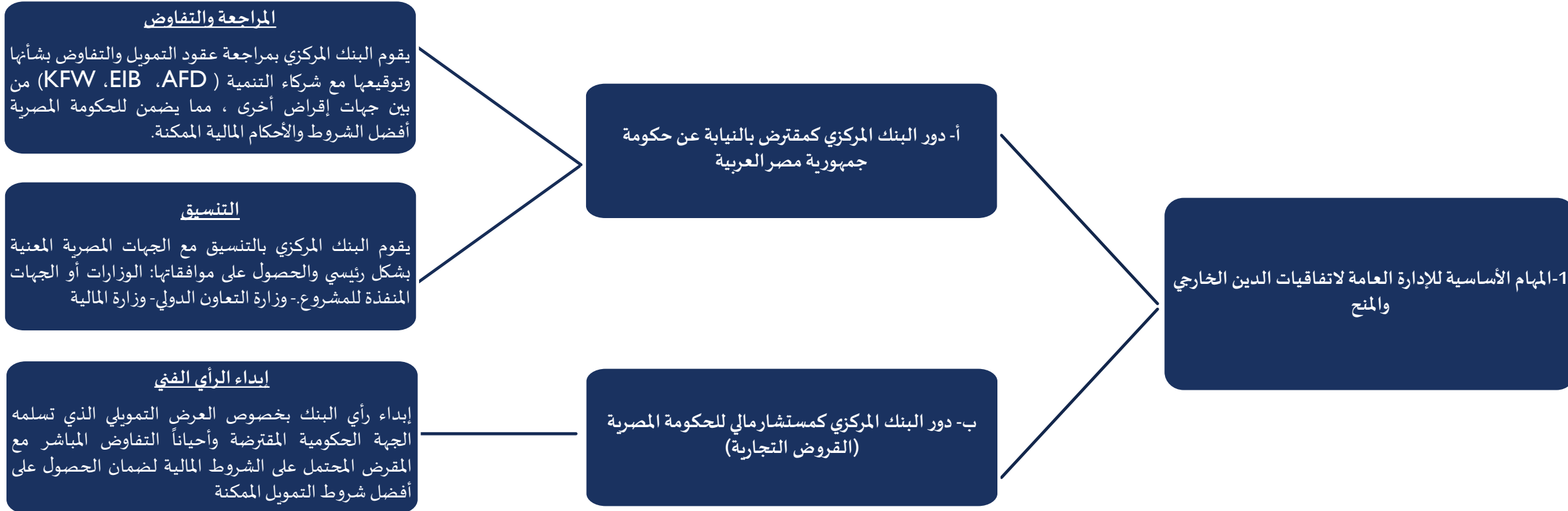
ACI Operations  
Certificate – ACI  
Financial  
Markets  
Association

***Thank you***



البنك المركزي المصري  
قطاع العلاقات الخارجية

الإدارة العامة لاتفاقيات الدين الخارجي والمنح  
External Debt & Grants Agreement Department



**ملحوظة عامة:** يشارك البنك المركزي كعضو في لجنة إدارة الدين العام وتنظيم الاقتراض الخارجي ضمن مجموعة عمل من جهات حكومية مختصة بالدولة (مثل وزارة المالية – وزارة التعاون الدولي – وزارة التخطيط وغيرهم)، حيث تقوم اللجنة بالنظر في العروض التمويلية الخاصة بالقروض الخارجية وفقاً لمحددات منها ( أولوية المشروعات و أهميتها الاستراتيجية من حيث العائد الاجتماعي والاقتصادي من تنفيذها) وذلك من خلال مراجعة دراسة الجدوى المعدة من الجهة المستفيدة من القرض من قبل وزارة التخطيط ويقوم البنك المركزي اثناء اللجنة بتقييم العروض وإبداء الرأي بشأنها من الناحية المالية و تحديد مدي مناسبة الشروط المعروضة وفقاً للأسعار السائدة في السوق وذلك اخذا في الاعتبار معايير سقف الدين الخارجي .

## سعر الفائدة:

ثابت: يتم تحديده عند كل سحبة

أو متغير: سعر استرشادي (ليبور/يوريبور) + الهامش (يتم تحديده من قبل المقرض وفقاً لتكلفة الأموال لعملة القرض)

مدة القرض: تتراوح بين 15 - 30 عام (متضمنة 5 - 10 عام فترة سماح)

## عمولات أخرى:

عمولة ارتباط على المبالغ الغير مسحوبة - عمولة تقييم - عمولة سداد معجل - عمولة تأخر السداد

تتضمن الاتفاقيات بعض البنود الأخرى الخاصة بحالات الإخفاق وحالات السداد المعجل الإلزامي والاختياري وطرق السحب والسداد وفترة السحب وكذا القانون المطبق وشروط التحكيم.

أ- اتفاقيات حكومية ميسرة  
(ثنائية/متعددة الأطراف)

2- أنواع اتفاقيات التمويل وشروطها

## سعر الفائدة:

- ثابت: CIRR (وفقاً للعملة ومدة القرض) + هامش (في بعض الحالات)
- أو متغير: سعر استرشادي (ليبور/يوريبور) + الهامش ويعد منخفضاً (يتم تحديده من قبل المقرض وفقاً لتكلفة الأموال لعملة القرض)
- مدة القرض: تتراوح بين 13 – 20 عام (متضمنة 3 – 5 عام فترة سماح)

## عمولات أخرى:

- عمولة ارتباط - عمولات مقدمة (عمولة التنسيق والإدارة) - عمولة الوكالة
- عمولة التأمين يتم تحديدها وفقاً للتصنيف الائتماني وتقييم المخاطر للدولة والمقرض وتدفع إلى هيئة تأمين الصادات مقدماً أو بنسبة سنوية وذلك اخذاً في الاعتبار قواعد منظمة الـ OECD.

سعر الفائدة المتغير: سعر استرشادي (ليبور/يوريبور) + الهامش ويعد مرتفعاً (يتم تحديده من قبل المقرض وفقاً لتكلفة الأموال لعملة القرض)

مدة القرض: تتراوح بين 3 – 7 عام (متضمنة 1 – 2 عام فترة سماح)

## عمولات أخرى:

عمولة ارتباط - عمولات مقدمة (عمولة التنسيق والإدارة) - عمولة الوكالة

1- اتفاقيات مضمونة من هيئات تأمين الصادات من دولة المُصدر

2- اتفاقيات مع بنوك تجارية

ب- اتفاقيات تجارية (تتطلب وجود ضمانات وزارة المالية)

2- أنواع اتفاقيات التمويل وشروطها

ملحوظة عامة: تتضمن الاتفاقيات بعض البنود الأخرى الخاصة بحالات الإخفاق وحالات السداد المعجل الإلزامي والاختياري وطرق السحب والسداد وفترة السحب وكذا القانون المطبق وشروط التحكيم.





البنك المركزي المصري  
CENTRAL BANK OF EGYPT

## تطوير إدارة الاحتياطي النقدي الأجنبي 2005-2020

- ❖ السياسة الاستثمارية
- ❖ محددات الاستثمار
- ❖ تقسيم محافظ الاستثمار
- ❖ محافظ الاستثمار المختلفة ( محافظ داخلية – مدراء استثمار )
- ❖ متابعة محافظ الاستثمار

## تطوير سوق الصرف الأجنبي 2005-2020

- ❖ سوق الانترنتك الدولارى
- ❖ أهم الإجراءات المتخذة
- ❖ عطاءات البنك المركزي ( 2013-2016 )
- ❖ آلية المستثمرين الأجانب
- ❖ تحرير سعر الصرف و متابعة السوق

## الإدارة المركزية للمكتب الخلفي

- ❖ هيكل الإدارة المركزية للمكتب الخلفي
- ❖ المهام الأساسية
- ❖ الدورة المستمرة للعمليات
- ❖ الممارسة الأفضل لمهام المكتب الخلفي
- ❖ برامج تدريبية مقترحة

## الإدارة المركزية للدين الخارجي

### أ- الإدارة العامة لإحصاءات الدين الخارجي

❖ المهام الأساسية

❖ تسجيل البيانات الأساسية لأدوات الدين على برنامج "DEMFAAS"

❖ اهم التقارير

## الإدارة المركزية للدين الخارجي

### ب- الإدارة العامة لاتفاقيات الدين الخارجي والمنح

❖ المهام الأساسية

❖ أنواع الاتفاقيات

❖ شروط الاتفاقيات



# ECONOMIC RECOVERY & LIVELIHOODS PROJECT (ERLP)

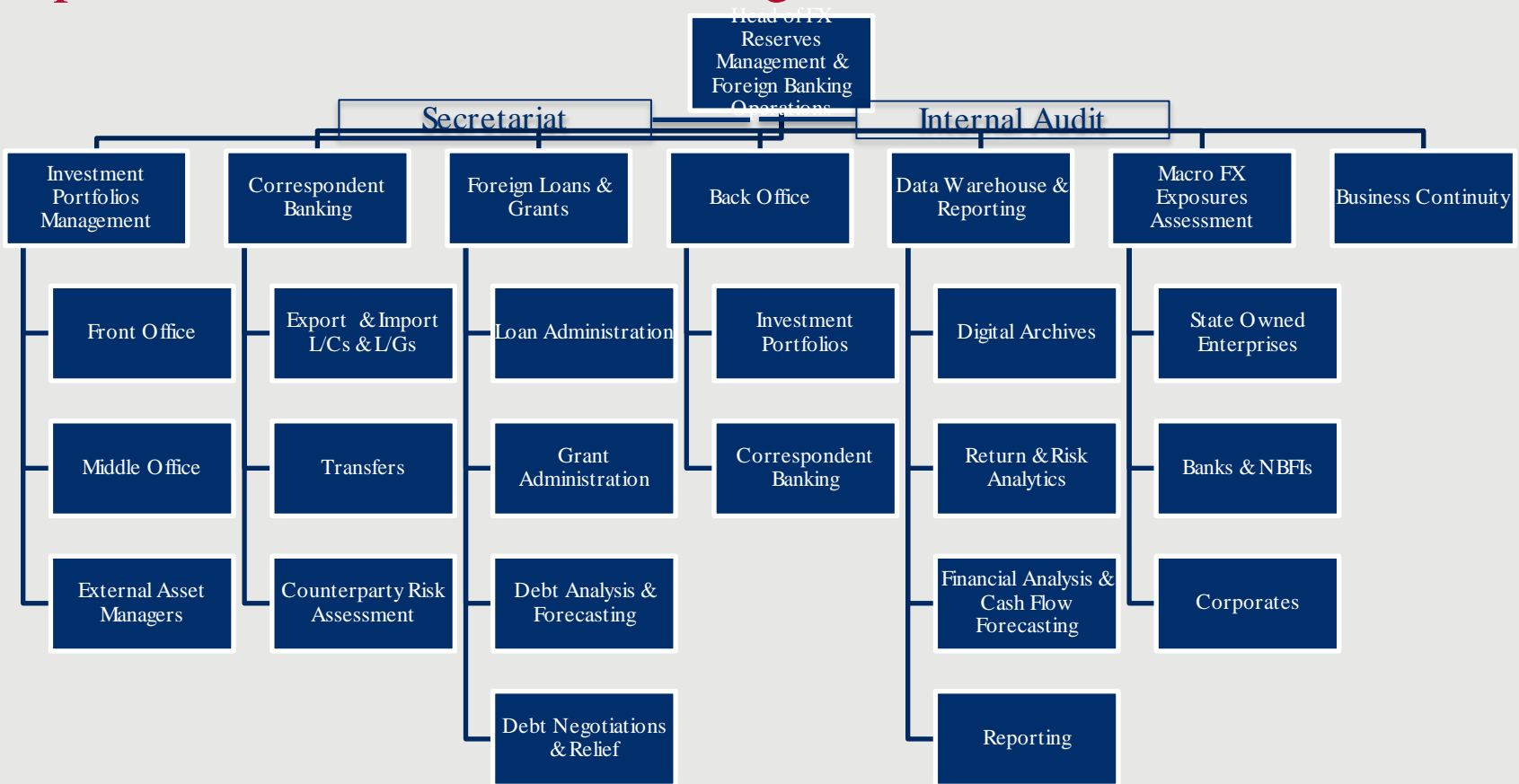
## FIXED INCOME INVESTMENT MANAGEMENT

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Central Bank of Yemen (CBY) Technical Support Program



# Proposed CBY FX Reserves Management Structure





# Investment Portfolios Management

## Front Office (IPS & Implementation)

- Investment Decision-Making unit
- Setting the investment Strategy & guidelines
- Asset Allocation (Strategic and Tactical)
- Deciding Portfolio Construction methodology to reach optimal portfolio
- Creating Investment committees (Roles, decision making, size of the team)
- Choosing Data Providers
- Ensuring Compliance

# Investment Policy Statement

## Key Considerations to set investment policy statement :

- Investment Objectives: Capital Preservations, Return, etc..
- Liquidity: speed and ease to convert the asset into cash
- Time Horizon: Planned liquidation date
- Regulations: specific regulations that apply to the client
- Taxes: investor tax base
- Unique needs: ethical considerations, age, wealth, risk tolerance

Type of Investor	Liquidity	Horizon	Regulatory	Taxes
Individuals and personal trusts	Variable	Life cycle	Prudent investor laws (for trusts)	Variable
Mutual funds	Low	Short	Little	None
Pension funds	Young, low; mature, high	Long	ERISA	None
Endowment funds	Little	Long	Little	None
Life insurance companies	Low	Long	Complex	Yes
Non-life-insurance companies	High	Short	Little	Yes
Banks	Low	Short	Changing	Yes

## Sample Investment Guidelines

- The type of securities that are allowed for investment ( Conventional, Sharia, geographies, etc)
- Designated benchmark and frequency of formal performance measurement i.e J.P. Morgan BI
- Maximum ownership constraints <5%
- Minimum market capitalization range >USD0.5 billion
- Maximum allocation to a single security (as a percent of total portfolio <10%)
- Average positions per portfolio 25- 30 positions to ensure diversification
- Targeted overall rating of IG with N/R not exceeding 15% of portfolio

# Investment Process



## Investment Analysis

- Define the universe
- Due diligence
- Valuation
- Recommendation
- Models used

## Portfolio construction

- Build portfolio based on strategy
- Refine to client's best objective
- Insure Best execution

## Monitoring

- Monitor returns
- Measure risks
- Attribution analysis
- Check Style drifts

## RISK MANAGEMENT

- Compliance checks
- Internal guidelines checks
- Business continuity plans (systems & personal)

# Investment Team Roles & Responsibilities

## Investment Committee

- Investment recommendations
- Weekly meeting
- Sector divisions
- Portfolio Managers & analysts
- Report to BOD
- Minutes of meeting documented
- Key Decision makers are defined
- Contingency plans
- Sources of data (sell side versus inhouse), local versus global

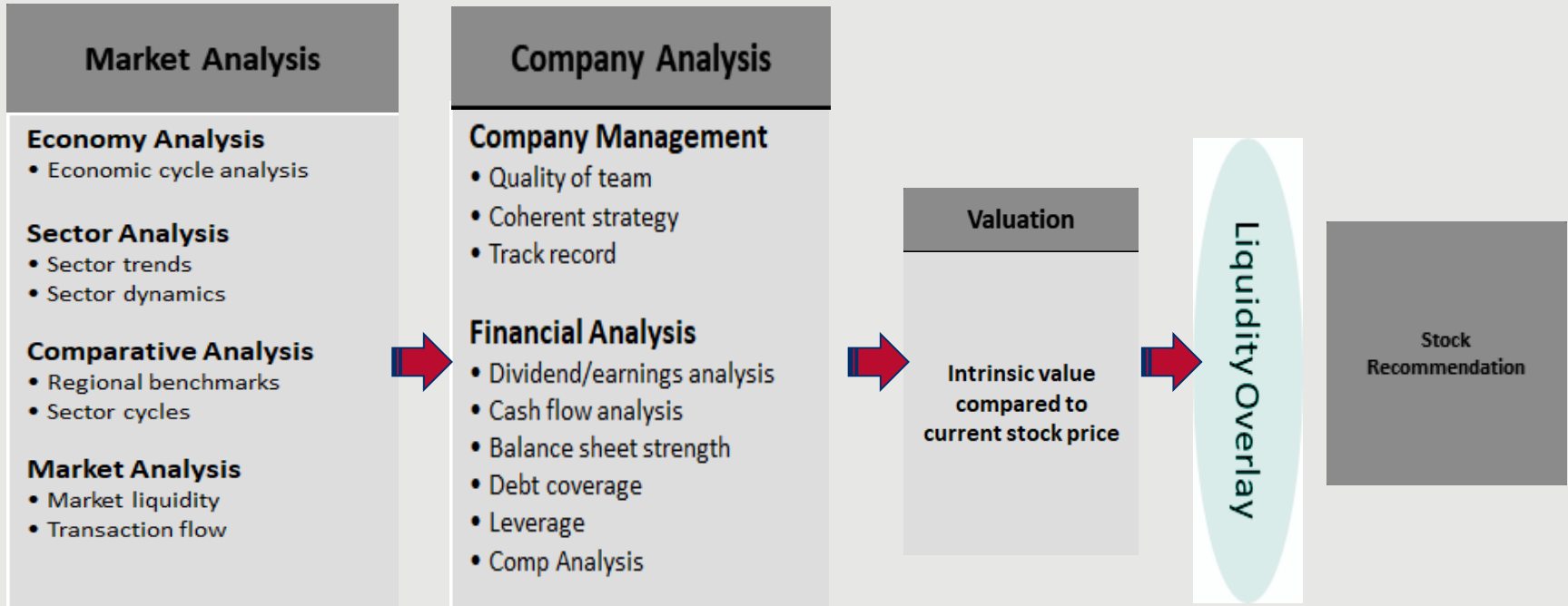
## Portfolio Management Team

- Implementation of IC decisions
- Market Timing
- Seek best execution
- Daily Portfolio monitoring and maintenance

## Risk & Compliance

- Monitor implementation of investment process
- Check required approvals, limits, shariah compliance, etc
- Flag breaches from investment guidelines
- Daily reporting of risk parameters (VAR etc)
- Independent reporting line than investment unit

# Portfolio Construction Methodology



## KEY Metrics for Recommended Model Portfolio

- Portfolio Composition
- Portfolio Characteristics vs Benchmark
- Historical Total Return vs Benchmark
- Style Exposure
- Return & Risk Attribution
- Risk Characteristics
- Optimisation to maximise returns per unit of risk
- Rebalancing Techniques (Buy & Hold, Constant Mix, Active rebalancing )
- Exit Strategy

# External Mangers & Funds

## Why use external managers or a portfolio of funds

- They offer diversification ( different styles: value, growth, etc.. and asset classes)
- Expertise
- Transparency (Funds)
- Flexibility (Funds, daily liquidity)

## Disadvantage:

- Fees
- less alpha

## Picking Managers

- Public track record
- Size & Qualifications of team
- Return history
- Risk Profile (volatility, tracking error, etc..)
- Risk-Return Profile (Sharp ratio, Information Ratio, Etc...)
- AUMs
- Infrastructure used and risk management unit



## Middle Office

- Links front office to back office
- Responsible for ensuring and clearing deals arranged by the front office, trade confirmations, corporate actions and P&L calculations
- Can include the risk management unit, IT support function, compliance
- Legal requirements in signing with external parties (i.e. brokers, data providers...etc.)
- Can either be Inhouse or outsourced (e.g. APEX)
- Outsourcing provide flexibility to integrate with brokers custodians, valuation techniques for illiquid assets, etc..



Source: APEX

## Back Office-operations

- All Post-trade activities
- Fund administration
- Custody, Clearing & Settlements
- Maintain records
- Fund Accounting
- HR, IT and all support functions

# Data Warehouse

- Digital Data maintained to integrate flow from front to back office
- Consistent, Accurate & Reliable source of data for front office to make accurate decisions
- Market data (providers, real time: Bloomberg, Reuters, Factset ) for investment analysis (prices OTC, positions, etc..)
- Portfolio data (daily NAVs)
- Risk calculations
- Tax Reporting
- P&L

# Generic Bond Valuation

A risk-free fixed income security is like a loan purchased to a risk-free counterparty at a given price to be returned after a specific amount of time according to a predetermined repayment schedule

Each cash flow (coupon) is valued using **risk-free zero-coupon rates** corresponding to each maturity, using risk-free zero-coupon curve

Time is measured in years (t) & period fraction to next payment in case of biannual, quarterly payments

$$\text{Price} = \frac{\text{Cash Flow } t_1}{(1+z_{t_1} \times t_1)} + \frac{\text{Cash Flow } t_2}{(1+z_{t_2})^{t_2}} + \frac{\text{Cash Flow } t_3}{(1+z_{t_3})^{t_3}} + \dots + \frac{\text{Cash Flow } t_n}{(1+z_{t_n})^{t_n}}$$

			Fixed Income Security	
Time in years (following convention)	Zero Coupon Curve		Cash Flows (Fixed)	Present Value of Cash Flows
$t_1$	Less than one year	$z_{t_1}$	Cash Flow $t_1$	$\frac{\text{Cash Flow}_{t_1}}{(1+z_{t_1} \times t_1)}$
$t_2$	More than one year	$z_{t_2}$	Cash Flow $t_2$	$\frac{\text{Cash Flow}_{t_2}}{(1+z_{t_2})^{t_2}}$
$t_3$	More than one year	$z_{t_3}$	Cash Flow $t_3$	$\frac{\text{Cash Flow}_{t_3}}{(1+z_{t_3})^{t_3}}$

## Pricing a corporate bond (adding credit spread)

- Only government securities are considered risk free, hence only they are only subjected to interest rate risks
- Other securities are subjected to credit risk, hence need to be accounted for in the credit spread
- Credit spread is added to risk-free zero-coupon curve to discount cash flows
- Spread is not fixed, it will depend on rating and liquidity
- Rating depends on issuer & seniority

$$\text{Present Value} = \frac{\text{Coupon}}{(1 + z_{rf,1} + \text{Sp}(\text{rf-c}))} + \frac{\text{Coupon}}{(1 + z_{rf,2} + \text{Sp}(\text{rf-c}))^2} + \dots + \frac{1 + \text{Coupon}}{(1 + z_{rf,n} + \text{Sp}(\text{rf-c}))^n}$$

## Full/Dirty Price & Clean price

The full price is the addition of all present values of all bond cash flows, it's the price that has to be paid including accrued coupon

Bonds are quoted using the clean price, traders negotiate the clean price, though clients pay full price

$$\text{Accrued Coupon} = \text{Coupon} \% \times \frac{\# \text{ Days between last paid coupon and today}}{\# \text{ Days between each coupon payment}}$$

$$P_{\text{Clean}} = P_{\text{Full}} - \text{Accrued Coupon} = P_{\text{Full}} - \left( \text{Coupon} \times \frac{\# \text{ Days}}{\# \text{ Days per period}} \right)$$

## Yield (IRR or Return) for Fixed income

IRR (Yield) is the annualized effective compounded rate of return that makes NPV of all cash flows from an investment equal to zero

For fixed income only negative cash flow is the price paid when buying the security, then repayment schedule considering the corresponding interest rates are the positive cash flows

So for fixed income, Yield is the average of zero-coupon rates weighted by PV of each cash flow, it can be computed only after price of bond is know and calculated (using solver), it's the sum of RFR & credit spread

No 2 bonds have the same yield, even if maturity is the same

$$\text{Price} = \frac{\text{Cash Flow 1}}{(1 + irr)^{t_1}} + \frac{\text{Cash Flow 2}}{(1 + irr)^{t_2}} + \frac{\text{Cash Flow 3}}{(1 + irr)^{t_3}} + \dots + \frac{\text{Cash Flow n}}{(1 + irr)^{t_n}}$$

## BBG Price & Yield (clean price)

[HELP] for explanation, [MENU] for similar functions.
 N170 Corp HP

**BGN/CLOSE/MID/YTM**
Page 1 / 3

TREASURY UKT4 1/4 06/07/32 100.7700/100.9000 (4.20/4.20) BGN @12:05

Range 5/ 8/01 to 11/ 8/01
 Source BGN
 HI 100.83 ON 11/ 8/01

Period D Daily
 AVE 92.343

Market M Mid/Last
 LDW 87.61 ON 6/13/01

DATE	Price	YIELD	DATE	Price	YIELD	DATE	Price	YIELD
F 11/ 8	H100.83	4.201	F 10/19	93.83	4.629	F 9/28	92.07	4.742
W 11/ 7	100.62	4.213	T 10/18	93.94	4.622	T 9/27	91.99	4.748
T 11/ 6	100.66	4.211	W 10/17	94.03	4.616	W 9/26	91.50	4.781
M 11/ 5	100.62	4.214	T 10/16	94.35	4.596	T 9/25	90.21	4.867
F 11/ 2	100.04	4.247	M 10/15	94.11	4.610	M 9/24	90.40	4.854
T 11/ 1	100.68	4.210	F 10/12	92.85	4.692	F 9/21	90.76	4.830
W 10/31	98.98	4.310	T 10/11	92.66	4.704	T 9/20	90.50	4.847
T 10/30	97.62	4.392	W 10/10	92.71	4.701	W 9/19	90.57	4.843
M 10/29	96.74	4.446	T 10/ 9	92.49	4.715	T 9/18	91.14	4.804
F 10/26	95.54	4.520	M 10/ 8	93.39	4.657	M 9/17	91.63	4.772
T 10/25	95.15	4.545	F 10/ 5	91.92	4.753	F 9/14	92.16	4.736
W 10/24	94.24	4.602	T 10/ 4	91.77	4.763	T 9/13	92.02	4.746
T 10/23	93.50	4.650	W 10/ 3	92.02	4.746	W 9/12	92.83	4.693
M 10/22	93.77	4.632	T 10/ 2	91.34	4.791	T 9/11	93.61	4.642
			M 10/ 1	91.72	4.766	M 9/10	93.65	4.640



# Credit Rating (driven by default probability) higher rating lower yield

	Moody's		Standard & Poors		Bond rating	Spread over government bond
	Rating	Expected Default Rate	Rating	Expected Default Rate		
Investment grade	Aaa	0,01%	AAA	0,01%	AAA	0,20%
	Aa1	0,02%	AA+	0,02%	AA	0,50%
	Aa2	0,03%	AA	0,03%	A+	0,80%
	Aa3	0,04%	AA-	0,04%	A	1,00%
	A1	0,05%	A+	0,05%	A-	1,25%
	A2	0,07%	A	0,07%	BBB	1,50%
	A3	0,09%	A-	0,09%	BB	2,00%
	Baa1	0,13%	BBB+	0,13%	B+	2,50%
	Baa2	0,18%	BBB	0,18%	B	3,25%
Non Investment grade	Baa3	0,34%	BBB-	0,32%	B-	4,25%
	Ba1	0,68%	BB+	0,53%		
	Ba2	1,21%	BB	0,93%		
	Ba3	2,25%	BB-	1,57%		
	B1	4,21%	B+	2,64%		
	B2	7,86%	B	4,46%		
	B3	12,95%	B-	7,52%		

## Credit Rating agencies: S&P risk factors

Credit ratings are opinions not recommendations about relative credit risks between issuers. Reports doesn't reflect market liquidity or valuation of securities; they are usually behind the market in coming with updated views.



# Market Data: Bloomberg

DAMACR 6 <sup>5</sup> / <sub>8</sub> 04/18/23 Corp				Settings ▾	Yield and Spread Analysis	
99.630/100.708		6.841/6.191		BGN@ 7/ 3/		No Notes
1) Return & Spread		2) Graphs		3) Pricing		4) Description
5) Custom		Risk		Workout		OAS
DAMACR 6 <sup>5</sup> / <sub>8</sub> 04/18/23 ( XS1807408486 )						
Spread	595.78 bp	vs	2y T 0 <sup>1</sup> / <sub>8</sub> 06/30/23			
Price	100.708		↻ 99-25 <sup>1</sup> / <sub>8</sub>	13:38:03	<input checked="" type="radio"/> M.Dur	<input type="radio"/> Dur
Return	6.191455	Wst ▾	0.233619	S/A ▾	Risk	
Wkout	04/18/2023 @ 100.00	Consensus	Ret 6 6	Convexity		
Settle	07/07/21		07/06/21	DV ▾ 01 on 1MM	167	167
				Benchmark Risk	1.975	1.976
				Risk Hedge	846M	846M
				Proceeds Hedge	1,024M	
Spreads		Return Calculations		Invoice		
1) G-Sprd	599.2	Street Convention	6.191455	Face	1,000 M	
2) I-Sprd	591.6	Equiv 1 ▾ /Yr	6.287290	Principal	1,007,080.00	
Basis	N.A.	Mmkt (Act/360 ▾)	6.366141	Accrued (79 Days)	14,538.19	
14) Z-Sprd	592.4	True Return ▾	6.191455	Total (USD)	1,021,618.19	
15) ASW	587.0	Current Return	6.578			
16) OAS	600.1					
After Tax (Inc 40.800 % CG 23.800 %)		3.597902				
Issue Price = 100.000. Bond Purchased at Par.						

# Sample bond pricing

## MENA Bonds and Sukuk List



ISIN	NAME	TYPE	CCY	Rating S&P	Rating Moodys	Coupon	Coupon Type	Frequency	Yield%	Maturity	Amount Outstanding	Min Piece	Increment
Sovereigns & Quasi Sov													
XS0422754258	ABU DHABI GOVT INT'L		USD	AA	Aa2	6.75	FIXED	2	1.54	4/8/2019	1,500,000,000	100,000	1,000
XS0528721623	WAHA AEROSPACE BV		USD	AA	Aa2	3.925	FIXED	2	1.68	7/28/2020	900,000,000	100,000	1,000
XS0708899272	CBB INTERNATIONAL SUKUK	Sukuk Al Ijara	USD	BBB	-	6.273	FIXED	2	2.22	11/22/2018	750,000,000	100,000	1,000
XS0546426528	DUBAI GOVT INT'L BONDS		USD	-	-	6.7	FIXED	2	0.36	10/5/2015	500,000,000	100,000	1,000
XS0778097088	DUBAI DOF SUKUK LTD	Sukuk Al Ijara	USD	-	-	4.9	FIXED	2	1.32	5/2/2017	600,000,000	200,000	1,000
XS0546428144	DUBAI GOVT INT'L BONDS		USD	-	-	7.75	FIXED	2	2.99	10/5/2020	750,000,000	100,000	1,000
XS0640032594	DUBAI GOVT INT'L BONDS		USD	-	-	5.591	FIXED	2	3.18	6/22/2021	500,000,000	100,000	1,000
XS0778097674	DUBAI DOF SUKUK LTD	Sukuk Al Ijara	USD	-	-	6.45	FIXED	2	3.22	5/2/2022	650,000,000	200,000	1,000
XS0880424337	DUBAI DOF SUKUK LTD	Sukuk Al Ijara	USD	-	-	3.875	FIXED	2	3.36	1/30/2023	750,000,000	200,000	1,000
XS1062038143	DUBAI DOF SUKUK LTD	Sukuk Al Ijara	USD	-	-	5	FIXED	2	4.60	4/30/2029	750,000,000	200,000	1,000
XS0880597603	DUBAI GOVT INT'L BONDS		USD	-	-	5.25	FIXED	2	5.61	1/30/2043	500,000,000	200,000	1,000
XS0558268628	IPIC GMTN LTD		USD	AA	Aa2	3.125	FIXED	2	0.45	11/15/2015	1,000,000,000	250,000	1,000
XS0860583672	IPIC GMTN LTD		USD	AA	Aa2	1.75	FIXED	2	0.61	11/30/2015	750,000,000	200,000	1,000
XS0701035320	IPIC GMTN LTD		USD	AA	Aa2	3.75	FIXED	2	1.09	3/1/2017	1,500,000,000	200,000	1,000
XS0558268891	IPIC GMTN LTD		USD	AA	Aa2	5	FIXED	2	2.51	11/15/2020	1,500,000,000	250,000	1,000
XS0605559821	IPIC GMTN LTD		EUR	AA	Aa2	5.875	FIXED	1	1.13	3/14/2021	1,250,000,000	100,000	1,000
XS0701035676	IPIC GMTN LTD		USD	AA	Aa2	5.5	FIXED	2	2.74	3/1/2022	1,500,000,000	200,000	1,000
XS1069869839	ICD SUKUK CO LTD	Sukuk Al Ijara	USD	-	-	3.508	FIXED	2	3.77	5/21/2020	700,000,000	200,000	1,000

## Sample Another Broker Pricing (Arqaam)

Security		Ccy	B Px	A Px	B ZSprd	A ZSprd	B Spd	A Spd	B YTM	A YTM	Bench	ISIN
ADGB	2½	22	USD	102.65-102.95		20/-4		16/-8	0.391/0.157		2Y	XS1696908471
ADGB	0¾	23	USD	100.70-100.85		7/0		19/12	0.423/0.353		2Y	XS2225210256
ADGB	2¼	24	USD	104.80-104.95		2/-2		18/14	0.622/0.576		3Y	XS2057865896
ADGB	2½	25	USD	106.35-106.75		8/-3		-7/-17	0.789/0.685		5Y	XS2125308085
ADGB	3¼	26	USD	109.15-109.55		28/20		31/23	1.168/1.087		5Y	XS1402929746
ADGB	3¼	27	USD	109.75-110.25		41/33		63/55	1.488/1.409		5Y	XS1696892295
ADGB	1¾	28	USD	99.75-100.10		49/44		24/19	1.663/1.610		10Y	XS2348236980
ADGB	2½	29	USD	104.60-104.85		62/59		47/44	1.894/1.862		10Y	XS2057865979
ADGB	3¼	30	USD	108.50-109.00		76/70		64/58	2.061/2.001		10Y	XS2125308168
ADGB	1.7	31	USD	96.35-96.95		74/67		70/63	2.120/2.050		10Y	XS2225210413
ADGB	4¼	47	USD	118.65-119.55		140/136		103/99	3.084/3.039		T 1¾ 51	XS1696899035
ADGB	3¼	49	USD	101.55-102.45		135/130		99/94	3.043/2.996		T 1¾ 51	XS2057866191
ADGB	3¾	50	USD	114.95-115.85		140/136		104/99	3.087/3.044		T 1¾ 51	XS2125308242

# Sample Reports: Risk Summary (FACTSET)

## GB1 vs SPDR S&P 500 ETF

Risk Summary

23-OCT-2020 | U.S. Dollar

---

	GB1 Data
<b>Fundamental Characteristics</b>	
Port. Ending Market Value	118,042,291
Security Count	16
Market Capitalization	366,990.9
Dividend Yield	0.97
Price/Earnings	29.0
Price/Book	7.1
<b>Risk Characteristics</b>	
Total Risk	25.19
Benchmark Risk	19.97
Predicted Beta	1.12
Predicted Tracking Error	11.67
<b>Risk (%)</b>	
% Asset Specific Risk	86.74
% Factor Risk	13.26

# Sample Reports: Attribution Report (FACTSET)

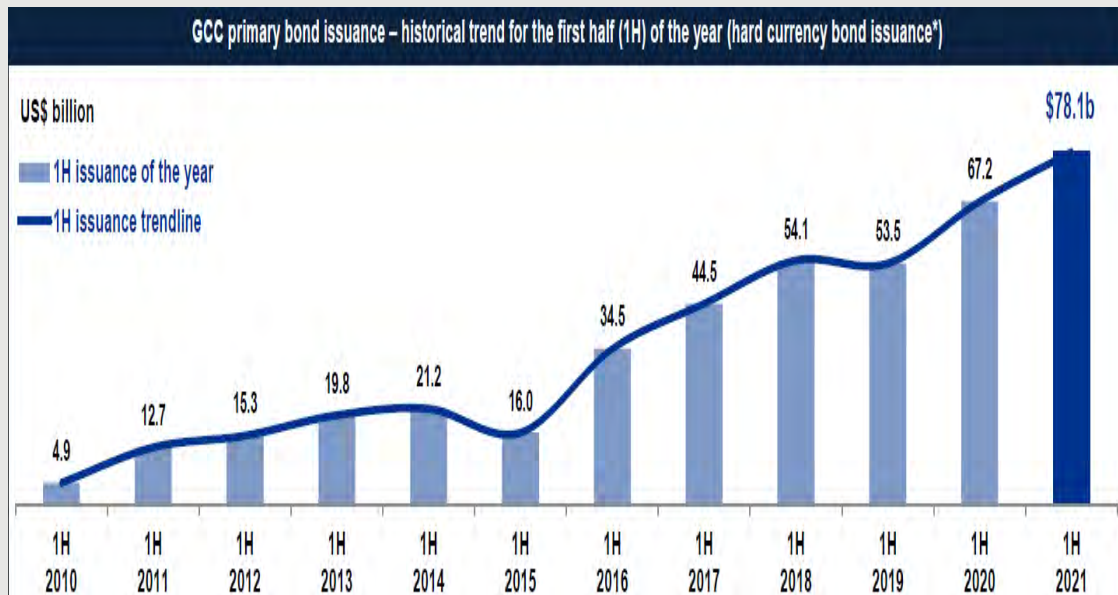
## GB1 vs SPDR S&P 500 ETF

3 Factor Brinson Attribution

23-JUN-2020 - 23-OCT-2020 | Economic Sector | U.S. Dollar

	GB1			SPDR S&P 500 ETF			Attribution Analysis			
	Port. Average Weight	Port. Total Return	Port. Contrib. To Return	Bench. Average Weight	Bench. Total Return	Bench. Contrib. To Return	Allocation Effect	Selection Effect	Interaction Effect	Total Effect
<b>Total</b>	<b>100.00</b>	<b>18.71</b>	<b>18.71</b>	<b>100.00</b>	<b>11.22</b>	<b>11.22</b>	<b>0.64</b>	<b>6.02</b>	<b>0.83</b>	<b>7.49</b>
Technology Services	22.92	35.25	7.27	18.79	10.46	1.94	0.01	4.09	0.84	4.94
Health Services	5.73	37.86	1.96	2.28	12.52	0.28	0.03	0.59	0.72	1.33
Health Technology	4.95	20.77	0.99	11.39	7.51	0.92	0.25	1.38	-0.78	0.85
Energy Minerals	--	--	--	1.97	-24.10	-0.58	0.85	--	--	0.85
Finance	16.55	9.99	1.80	14.54	5.70	0.79	-0.10	0.77	0.08	0.75
Producer Manufacturing	5.21	35.36	1.67	3.36	23.56	0.74	0.22	0.33	0.17	0.72
Communications	--	--	--	1.90	2.17	0.05	0.19	--	--	0.19
Consumer Services	19.21	10.79	2.51	5.03	13.38	0.65	0.33	-0.04	-0.18	0.11
Industrial Services	--	--	--	0.72	0.16	-0.00	0.10	--	--	0.10
Commercial Services	--	--	--	0.91	4.41	0.05	0.08	--	--	0.08
Distribution Services	4.93	12.92	0.55	0.54	7.21	0.04	-0.18	0.04	0.20	0.06
[Cash]	--	--	--	0.22	0.04	0.00	0.05	--	--	0.05
[Unassigned]	--	--	--	-0.00	--	--	0.02	--	--	0.02
Non-Energy Minerals	--	--	--	0.45	20.58	0.09	-0.02	--	--	-0.02
Utilities	--	--	--	3.00	14.66	0.44	-0.06	--	--	-0.06
Consumer Durables	--	--	--	1.17	20.74	0.23	-0.09	--	--	-0.09
Process Industries	--	--	--	2.20	18.48	0.38	-0.13	--	--	-0.13
Transportation	--	--	--	1.88	30.43	0.51	-0.31	--	--	-0.31
Retail Trade	15.84	10.47	1.87	9.50	15.51	1.47	0.40	-0.48	-0.37	-0.45
Consumer Non-Durables	4.67	-0.57	0.09	6.02	12.19	0.73	0.00	-0.67	0.15	-0.52
Electronic Technology	--	--	--	14.15	18.02	2.49	-0.99	--	--	-0.99

# GCC Bond Market: 1H'21 strong supply and demand



Investment Grade Bonds/Sukuk Avg. order book	~4.0x
High Yield Bonds/Sukuk Avg. order book	~5.1x
Conventional Bonds Avg. order book	~3.6x
Islamic Bonds (Sukuk) Avg. order book	~5.8x
Sovereign Bonds/Sukuk Avg. order book	~4.4x
Corporate Bonds/Sukuk Avg. order book	~4.7x

Source: FAB



# UAE Tops the issuances

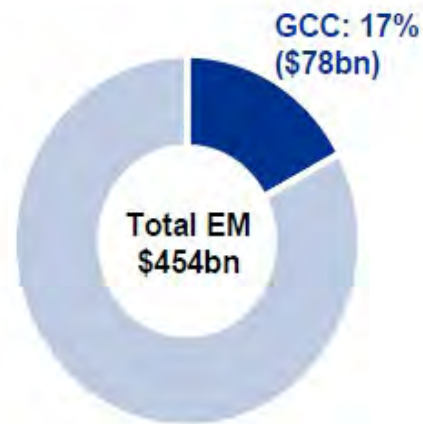
1H'2021 new issuance split

Sov	\$17.1bn	22%	UAE	\$27.0bn	35%
Fin	\$21.6bn	28%	KSA	\$19.1bn	25%
GREs	\$37.3bn	47%	Qatar	\$18.2bn	23%
Corp	\$2.2bn	3%	Oman	\$7.4bn	9%
Conventional bonds	\$60.1bn	77%	Kuwait	\$3.3bn	4%
Islamic bonds (Sukuk)	\$18.0bn	23%	Bahrain	\$3.1bn	4%

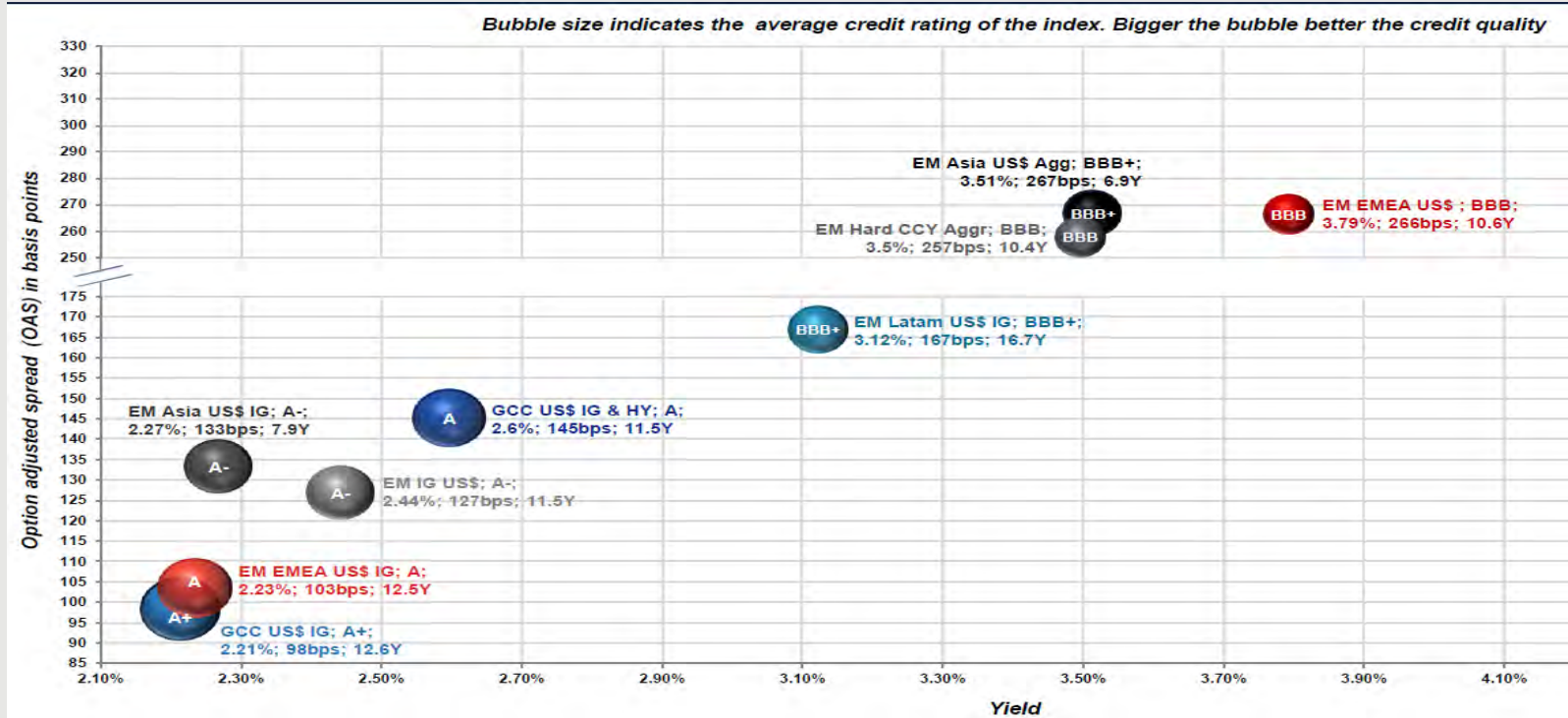


Source: FAB

GCC issuances total for 1H'21 account 17% of total EM

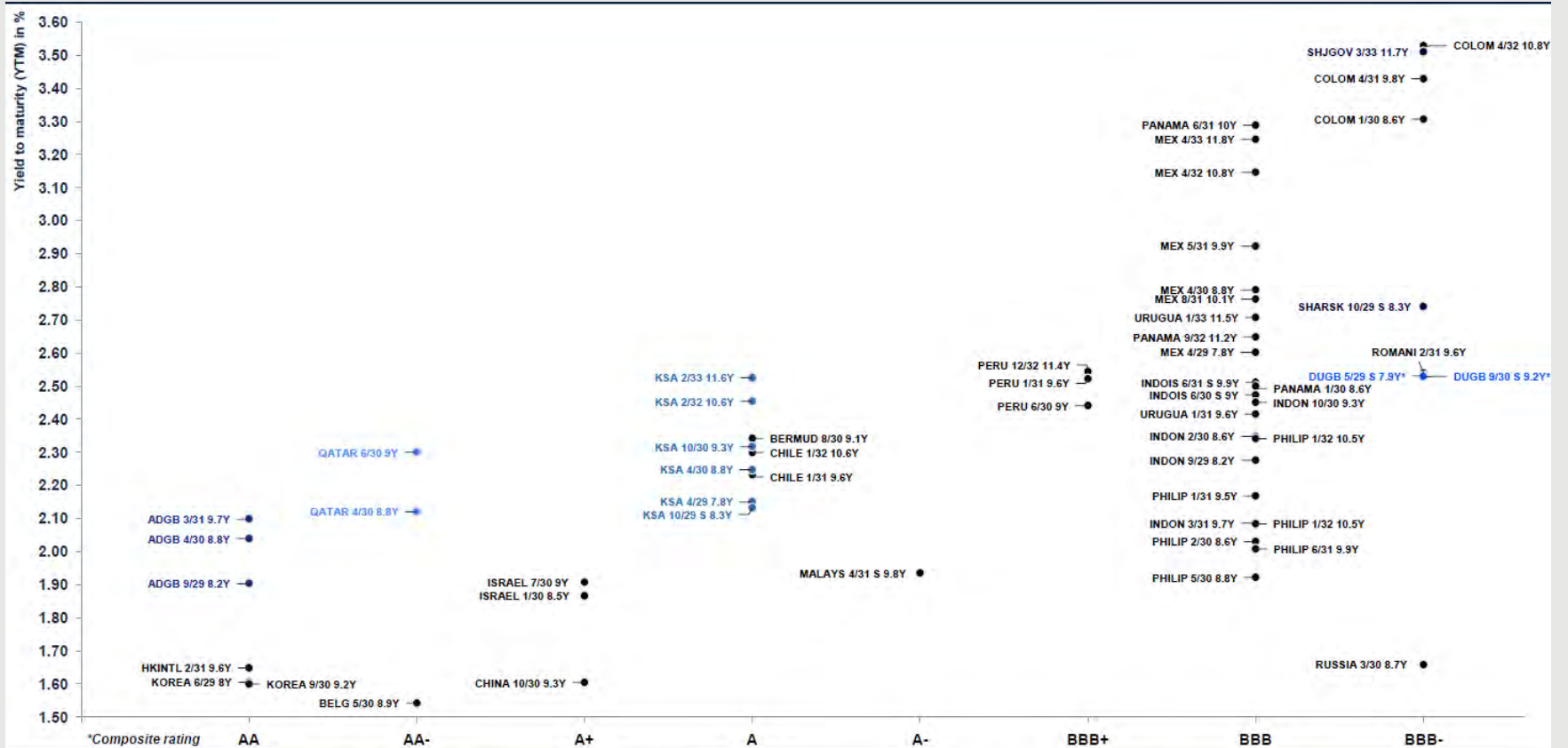


# GCC offers attractive return versus EM given higher ratings



Source: FAB

# GCC IG Sovereign bonds 10Y versus EM



Source: FAB

# GCC Bonds Performance 1H21 (higher oil prices, weaker dollar should support further)



Note: Please refer appendix for the index details. Source: Bloomberg, FAB

Source: FAB

## GCC Bonds Performance vs EM

Performance/Index	Spread/OAS	1D Change (bps)	1W Change (bps)	Last 3 Months (bps)	YTD change (bps)
J.P. Morgan EMBI Global Spread	311.58	1.12	0.40	-12.36	-11.39
Bloomberg Barclays GCC Credit + HY (OAS)	144.36	0.40	-1.11	-10.37	-29.87



# بازل II الإستراتيجية والتطبيق التجربة المصرية

ي

## ◆ الإستراتيجية

- مهام البنك المركزي الأساسية.
- إعادة تأهيل القطاع .
- الإطار الرقابي لبازل 2.
- منهجية البنك المركزي فى تطبيق بازل 2 .
- اساليب التطبيق.
- نقاط يجب اخذها فى الاعتبار.
- المحصلة.

## ◆ التطبيق

- بدء برنامج بازل 2 .
- الإعداد.
- مراحل التطبيق.
- التوقعات وعوامل النجاح الرئيسية.

## مهام البنك المركزي الرئيسية

- ◆ دعم الاقتصاد المصري .
- ◆ ضمان وجود نظام مصرفي قوي وآمن وفعال من خلال الدور الرقابي والإشرافي للبنك المركزي .
- ◆ إدارة:
  - السياسة النقدية للنظام الاقتصادي المصري.
  - احتياطي الدولة من النقد الأجنبي.
- ◆ إصدار أوراق النقد.



## اعادة تأهيل القطاع المصرفي

◆ انتهى البنك المركزي المصري من المرحلة الأولى من برنامج اعادة تأهيل القطاع المصرفي والذي بدأ في عام 2004 وانتهى في ديسمبر 2008.

◆ الهدف الأساسي من البرنامج :

1. تقوية القطاع المصرفي،
2. تعزيز قدرته لمواجهة المنافسة العالمية والإقليمية على نحو فعال و
3. المساعدة على تحقيق النمو الاقتصادي .

## اعادة تأهيل القطاع المصرفى (تابع)

### ◆ تتضمن خطة اعادة التأهيل أربعة محاور رئيسية :

1. الخصخصة وإجراء عدة اندماجات بالقطاع المصرفي ،
2. معالجة الديون المتعثرة،
3. فضلاً عن إعادة الهيكلة المالية والإدارية لبنوك القطاع العام ، و
4. تطوير قطاع الرقابة و الإشراف بالبنك المركزي المصري .

◆ تضمنت المحاور الاخرى من البرنامج الشكل النهائي لنظام المدفوعات (RTGS) مع ضمان استمرارية المنهج الإصلاحى للسياسة النقدية ، وكذا إدارة متوازنة في مجال الصرف الأجنبي و الحفاظ على الاحتياطي النقدي الخارجى .

◆ قد كان للبرنامج دوراً كبيراً في الحد من آثار الأزمة المالية العالمية على القطاع المصرفي المصري حيث لم يغم البنك المركزي بضخ أي سيولة إضافية.

◆ وقد مهد البرنامج الطريق لمرحلة جديدة من التطوير .

## إعادة تأهيل القطاع المصرفي (تابع)

◆ وقد بدأ البنك المركزي المصري في يناير 2009 المرحلة الثانية من برنامج تطوير القطاع المصرفي وإعادة تأهيله .

### ◆ الركائز الأساسية للبرنامج:

- إعادة هيكلة بنوك القطاع العام المتخصصة ،
- ضمان تيسير إنشاء وتنمية المؤسسات الصغيرة والمتوسطة SME،
- مواصلة تطوير القدرات المهنية لقطاع الإشراف ، و
- تطبيق مقررات بازل 2 في القطاع المصرفي المصري .

- ◆ بازل 2 هي اتفاقية تم توقيعها في يونيو 2004 من مجموعة من البنوك المركزية والسلطات الرقابية المصرفية الدولية لوضع معايير رقابية أساسية تهدف الى قياس رأس مال البنوك .
- ◆ يعد الغرض الرئيسي منها هو ضمان التقارب في أنشطة الإشراف وفقا لمعايير موحده قدر الإمكان ويعد الهدف الإجمالي لبازل 2 هو تحسين نظم إدارة المخاطر داخل البنوك .
- ◆ **هتدبم برك 2 لك ثلاث لتهذ آززذب هي :**
  - الحد الأدنى لمتطلبات رأس المال (المحور الأول) ،
  - عملية المراجعة الإشرافية (المحور الثاني) ،
  - وأخيرا انضباط السوق (المحور الثالث) .
- ◆ ويعد تطبيق اتفاقية بازل 2 استمراراً لعملية الإصلاح المصرفي الذي بدأها البنك المركزي في عام 2004 .
- ◆ وايضا لمواكبة أفضل الممارسات الدولية حيث يعدا عنصران مساعدان لتحسين القدرة التنافسية للجهاز المصرفي المصري .

## منهجية البنك المركزي المصري في تطبيق بازل 2

أهدافنا هي تحقيق التنوع في المنتجات والخدمات المقدمة للعملاء  
آزمنة بنائنا على أساسين مهمين:

◆ **التوحيد:** يعتبر مبدأ التيسير مطلوباً لكي يبقى متنسقاً مع المستويات المختلفة من أنظمة المعلومات والرقابة لدى البنوك ، ولضمان الانتقال السلس في ظل التعليمات القائمة ، ويعتبر الأسلوب المعياري Standardized Approach هو الأكثر الأساليب مناسبة لذلك.

◆ **التكامل:** و تعد عاملاً أساسياً لنجاح أي إطار رقابي جديد ، وحيث أن نطاق بازل 2 يعتبر نطاقاً شاملاً ، فلا بد من أن يتم استيعابه من قبل جميع أطراف السوق .

ركزت استراتيجية التنفيذ على الاسلوب المعياري  
Standardized Approach وذلك فيما يتعلق  
بمخاطر الائتمان والسوق ، وأسلوب المؤشر الاساسي  
Basic Indicator Approach بالنسبة للمخاطر  
التشغيلية.

## نقاط يجب اخذها في الاعتبار

حددت استراتيجية البنك المركزي اربعة نقاط معينة يجب اخذها في الاعتبار خلال تطبيق منهجية بازل 2 في القطاع المصرفي المصري:

- المعالجة الوطنية.
- التنوع في النظام المصرفي.
- الحد من آثار التقلبات الاقتصادية.
- التقييم الدوري.

- ◆ تركت اتفاقية بازل 2 متسماً لإجراء بعض المعالجات المحلية حيث يمثل ذلك بعض الخيارات المتاحة للسلطات الرقابية المحلية عند تقييم مدى كفاية رأس المال.
- ◆ ولقد تعرف البنك المركزي المصري على خبرة بعض البلدان الأخرى في هذا المجال ، آخذاً في الاعتبار الوضع الخاص للنظام الاقتصادي المصري وبما يتوافق مع الأولويات القومية .



◆ تعد البنوك المصرية غير متماثلة خاصة فيما يتعلق بالحجم والأنشطة، فالبعض منها يقوم بالتركيز على عمليات التجزئة، في حين أن البعض الآخر يقتصر نشاطه على ائتمان الشركات، كما أن التغطية الجغرافية وطبيعة الأعمال لديها تعد مختلفة إلى حد كبير وذلك بالطبع بما يتفق مع إستراتيجية كل منها .

◆ ورغم أن تطبيق النظم المتطورة لإدارة المخاطر من خلال التعليمات الرقابية يدعم وجود إدارة أفضل للمخاطر إلا أنه قد يهدد مبدأ تكافؤ الفرص.



## التنوع في النظام المصرفي (تابع)

- ◆ ولذلك فقد قام البنك المركزي المصري بالتأكد من عدم وجود ميزة تنافسية لا مبرر لها.
- ◆ وبالرغم أن الأسلوب المعياري Standardized Approach يمثل الخطوة الأولى لتطبيق بازل ، إلا أن التعليمات قد مهدت الطريق لتطبيق أساليب أكثر تطورا في المستقبل .
- ◆ ضرورة التأكد من وجود نظم لإدارة المعلومات بالبنوك بصورة كافية .



## التنوع في النظام المصرفي (تابع)

- ◆ الموارد البشرية التي يمكن الاستفادة منها قد تختلف اختلافاً كبيراً من حيث المؤهلات والخبرات.
- ◆ لذا فان واحدة من القضايا التي واجهت مجموعات العمل لدي تطبيق بازل 2 هي أهمية إتاحة فرص متساوية لجميع المؤسسات المصرفية أيا كانت إستراتيجيتهم أو النظام الخاص بهم.

## الحد من آثار التقلبات الاقتصادية

- ◆ يتطلب الاستقرار المالي ألا تترك قواعد الحيطة Prudential Rules أي أثر سلبي على الائتمان نتيجة للركود الاقتصادي .
- ◆ إذ ان أي أزمة اقتصادية تزداد عمقاً نتيجة للأزمة الائتمانية التي تنشأ عن عدم كفاية قواعد الحيطة.
- ◆ لذا فإن الإجراءات التي اتخذت في مؤخراً سواء ضمن اتفاقية بازل أو لدى غيرها من الجهات الرقابية الدولية في ظل الأزمة الاقتصادية والمالية الأخيرة يجب أخذها في الاعتبار لتحسين جودة التطبيق لاتفاقية بازل2 في مصر.

♦ وبالتالي فإن مشروع التعليمات الخاصة ببازل 2 أكد على هذه الضرورة وتجدر الإشارة إلى أن تقييم التصنيفات الائتمانية يجب أن تتم من خلال دورة اقتصادية كاملة وليس في وقت محدد فقط.

- ◆ سوف يطلب من البنوك في مرحلة ما بعد التنفيذ لاتفاقية بازل 2 القيام بإجراء تقييم دوري لمدى كفاية رأس المال لديهم وذلك بإجراء مراجعة شاملة لمستويات ونظم المخاطر.
- ◆ علماً بأن تكرار هذه المراجعات سيكون محل نقاش داخل مجموعات العمل مع الأخذ في الاعتبار أن هذه العملية هي سمة دائمة من سمات إطار العمل لبازل 2.
- ◆ وحيث أن البنك المركزي المصري يمثل الجهة الرقابية، فإنه سيقوم بتقييم مدى كفاية رأس المال لكل بنك بشكل منتظم تبعاً لمنهجية محددة.

◆ وهذه العملية الإشرافية لن تأخذ في الاعتبار مخاطر الائتمان والسوق والتشغيل فقط ولكنها سوف تشمل كل المخاطر التي قد تتسبب في إحداث تأثير سلبي على السمعة المالية لأي من البنوك المصرية .

وفي النهاية فإن اتفاقية بازل 2 تتيح فرصة جيدة للبنوك لإدارة رؤوس أموالها بشكل أكثر كفاءة ، أما بالنسبة للاقتصاد ككل فإنها تساهم في خفض مخاطر إخفاق البنوك ومن المتوقع أن يستفيد البنك المركزي المصري من المستوى الحالي للممارسات الدولية لدى تطبيق بازل 2 وذلك لضمان أفضل تطبيق في مصر .



## الإستراتيجية

- مهام البنك المركزي الأساسية.
- إعادة تأهيل القطاع .
- الإطار الرقابي لبازل 2.
- منهجية البنك المركزي فى تطبيق بازل 2 .
- اساليب التطبيق.
- نقاط يجب اخذها فى الاعتبار.
- المحصلة.

## التطبيق

- بدء برنامج بازل 2 .
- الإعداد.
- مراحل التطبيق.
- التوقعات وعوامل النجاح الرئيسية.

◆ تم عقد سلسلة من الاجتماعات التمهيديّة المتعلقة باتفاقية بازل 2 في عام 2008 بين البنك المركزي المصري والبنك المركزي الأوروبي والعديد من البنوك المركزيّة الأوروبيّة ومجموعة من البنوك المصريّة وهيئة سوق المال ومراقبو الحسابات ، واتحاد البنوك ، والمعهد المصرفي المصري.

◆ تم توقيع مذكرة تفاهم بين البنك المركزي المصري والبنك المركزي الأوروبي بالتعاون مع عدد 7 بنوك مركزيّة أوروبية.

◆ تحديد المسئول عن البرنامج.

◆ تم تشكيل فريق عمل لتلك المهمة في البنك المركزي المصري لإدارة جميع الجوانب المتعلقة بالإطار التنظيمي لبازل 2.

◆ تكون ذلك الفريق من مزيج من مختلف المهارات والخبرات لزيادة القدرة على معالجة جميع الموضوعات والقضايا المتعلقة بتلك المهمة .

- ◆ وجود منسق مقيم من الاتحاد الاوروبي للبرنامج.
- ◆ وجود لجنة متابعة للبرنامج تجتمع بانتظام لرصد التقدم المحقق في مراحل التطبيق.

## اربعة مراحل للتطبيق

- ◆ المرحلة الأولى (يناير 2009 - يونيو 2009).
- ◆ المرحلة الثانية (يوليو 2009 - يونيو 2011).
- ◆ المرحلة الثالثة (يوليو 2011 - ديسمبر 2011).
- ◆ المرحلة الرابعة (استمرارية التطبيق).



## المرحلة الأولى (يناير 2009 - يونيو 2009)

- بناء القدرات الأساسية لأعضاء فريق العمل .
- تحديد الأطراف المعنية في البرنامج.
- وضع إستراتيجية التطبيق.

## المرحلة الثانية (يوليو 2009 – يونيو 2011)

- التنسيق المكثف مع الجهاز المصرفي من خلال طرح أوراق للمناقشة متعلقة بأهم الموضوعات.
- القيام بدراسة الاثر الكمي Quantitative Impact Studies لتقييم النتائج المستقبلية لبازل 2 قبل التطبيق الالزامي لها وذلك من حيث تقنيات إدارة المخاطر ونسب رأس المال.

## المرحلة الثانية (تابع)

- تقييم أثر المعايير المحاسبية الجديدة على التقارير الرقابية.
- اعداد Prudential Filters لتحديد أثر التغيير في المعايير المحاسبية عند حساب معدل كفاية رأس المال.
- مراجعة الجوانب الفنية لنظام التقارير المرسله الى البنك المركزي المصري وذلك لتعزيز الجودة والوقت وصحة البيانات لتحسين فاعلية المراجعة الرقابية.



## المرحلة الثانية (تابع)

- إقامة آلية جديدة لحفظ البيانات لتحسين عملية تجميع البيانات وتقليل عدد التقارير الرقابية، كما سيتم أيضاً دراسة تعديل بعض أنواع البيانات المبلغة لتبقى متوائمة مع الإطار الرقابي مستقبلاً.
- مواصلة بناء مزيد من القدرات مع عمل تدريبات مكثفة وإضافية لكل من موظفي البنك المركزي والبنوك المصرية.

## المرحلة الثالثة (يوليو 2011 - ديسمبر 2011)

■ وضع اللمسات النهائية على التعليمات الرقابية الجديدة المتعلقة ببازل 2.

■ إعداد البنوك لتطبيق اتفاقية بازل 2 مع وضع خطط عمل تصحيحية مختلفة لبعض البنوك مبنية على نتائج المحاكاة.

## المرحلة الرابعة (استمرارية التطبيق)

■ العمل ببازل 2 بالتوازي مع التعليمات القائمة الخاصة بمعيار كفاية رأس المال.

■ الانتهاء من آلية حفظ البيانات .

- ◀ أقرت لجنة بازل تعديلات جديدة - تُعرف باتفاق بازل (3) - على المعايير الحالية بهدف تقوية المراكز المالية للبنوك وذلك من خلال رفع نسب رأس المال وزيادة الاحتياطيات لرفع كفاءتها لمواجهة الأزمات المالية ووضع معايير جديدة للسيولة ، لتساعد البنوك على مواجهة المعاملات ذات معدلات المخاطر المرتفعة من خلال قواعد أكثر صرامة .
- ◀ ورغم صرامة المعايير الجديدة إلا أن المدة الإلزامية لتطبيقها والتي تصل حتى عام 2019 وتبدأ تدريجيا من عام 2013 جعلت البنوك تشعر بالارتياح.

من الجدير بالذكر بان تطبيق المعايير الجديدة في السوق المصري لن يكون له ذات التأثير التي ستواجه البنوك الدولية نظرا لان العديد من البنوك المصرية تتمتع بملاءة مالية عالية لرأس المال (حيث ان نسبة معيار كفاية رأس المال الحالي 10%) كما ان معظم هيكل رأس المال يعتمد على رأس المال الأساسي (الاسهم العادية).

◀ اقترحت لجنة بازل مجموعتين من المتطلبات الكمية المعيارية لتحسين الدفاعات المالية في النظام المصرفي :

## 1. نسبة تغطية السيولة Liquidity Coverage Ratio

توضح مدى كفاية الأصول ذات السيولة المرتفعة لتلبية صافي التدفقات النقدية الخارجة المطلوبة في الاجل القصير (خلال 30 يوم) و ذلك وفقا لمتطلبات محددة.

وقد قررت اللجنة البدء بفترة ملاحظة observation period من عام 2011 وتنتهى فى 2015 بحيث سيتم وضع الحد الأدنى من المعايير وفقا لنتائج فترة الملاحظة.

## 2. صافي التمويل المستقر Net Stable Funding Ratio

تقيس مصادر التمويل المستقر والمتاح مقارنة بالقيمة المطلوبة من التمويل المستقر لمواجهة تمويل الأصول والالتزامات العرضية وتهدف هذه النسبة التأكد من تواجد تمويل هيكلي طويل الاجل لمواجهة أى تغيرات هيكلية فى مخاطر السيولة للبنك.

وقد قررت اللجنة البدء بفترة ملاحظة observation period من عام 2012 حتى 2018 بحيث سيتم وضع الحد الأدنى من المعايير وفقاً لنتائج فترة الملاحظة.

◀ ومن الجدير بالذكر ان البنك المركزي المصري يعمل حالياً على الاستعداد لتطبيق تلك النسبيتين

- ◆ بناء القدرات في مجالات (الاحتياجات التدريبية ، تبادل الخبرات في التدريب الوظيفي والفنى ، وزيارات تعليمية... الخ).
- ◆ فتح حوارات مع جميع الاطراف .
- ◆ المبادئ الاسترشادية.
- ◆ التعليمات الرقابية.
- ◆ خطط زمنية لاتخاذ الإجراءات التصحيحية المناسبة .





## عوامل النجاح الرئيسية

- ◆ الالتزام.
- ◆ التنسيق.
- ◆ التعاون.
- ◆ اتخاذ القرارات في الوقت المناسب.

شكراً جزيلاً

## Central Bank Of Yemen

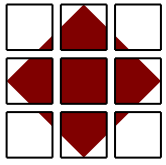
### Workshop Agenda

#### 3 days training sessions (Eikon apps & FX Auction 3days)

- Navigation, functionality & best market practices
  - **Eikon basics**
  - **Home Screen Customization and Navigation:** Asset class data and news on home screen, quick links, and home page customization
  - **Workspace management**
  - **App Library**
  - **Asset class**
  - **Eikon Messenger:** Chat tool to access different market participants and to share data.
  - **Eikon Excel:** Using Eikon Excel to retrieve real time data as well as historical time series.
  - **Reuters Insider**
  
- Cross Asset
  - **Country Overview:** Finding Country data and news using Country Pages
  - **News Monitor:** Live news update, filtering, and search
  - **Economic Monitor:** Real time monitoring of economic data, central bank updates, and debt auctions.
  - **Economic Indicator Chart:** Historical values for key economic indicators.
  - **Central Banks Page**
  
- FX and Money Markets
  - **FX and Money Views – Spot:** Real time view for FX Spot/ Swap prices and data with charts and analysis
  - **FX and Money Views – World Money Market Rates:** Real time Money Markets rates.
  - **FX Poll Data:** FX price forecasts for different pairs, dates and contributors.
  - **Local quotes, pages, and data**
  - **FX Buzz:** Brief analysis for FX markets and expectations

- **IFR Market Forex: Technical analysis reports**
  - **Central Bank Rates and Views: Central bank pages, overviews, policy rates and news.**
  - **Local quotes, pages, and data: Local data covering specific markets, prices and announcements.**
  - **Interest Rate polls: Expected Libor rates**
  - **Volume Heat map App: Market activity indicators and news**
  - **LAYOUT TEMPLATES FOR FOREIGN EXCHANGE**
  - **SWAP POINTS AND OUTRIGHTS – SUPPORT FOR TURN DATES**
  - **FX CROSS MATRIX**
- **Calculators**
    - **Bond Calculator**
    - **Swap & outright**
- **FX Trading overview**
- **Cross Asset**
    - **Country Overview: Finding Country data and news using Country Pages**
    - **News Monitor: Live news update, filtering, and search**
    - **Economic Monitor: Real time monitoring of economic data, central bank updates, and debt auctions.**
    - **Economic Indicator Chart: Historical values for key economic indicators.**
    - **Equity guide page**
    - **NDF guide (NDFO)**
    - **Islamic data guide**
    - **Islamic indices guide**

Wrapping & (Questions and Answers)



# **FX Reserves Management Best Practices**

## **Training Program**

### **Central Bank of Yemen**

**July 2021**

## I. Program Objectives

The objective of this tailored program on FX Reserves Management Best Practices for the CBY is to provide capacity building on the pillars of modern portfolio management and enable the formulation of and pilot application of a CBY reserves management policy. The program proposed herein is tailored to the needs of the CBY based on the diagnostic study conducted under the YESS program and recent insights provided by the CBY teams, including updates on recent changes in Yemeni market dynamics on the ground.

## II. Program Structure

The program is structured in two parts: (i) Modern Portfolio Management & Global Capital Markets and (ii) FX Reserves Management CBY Applications, with the latter to be based on Yemen specific data inputs provided by the CBY. It is proposed to run for two days in July 2021 and two days in September 2021, distributed across nine sessions, as per the below plan:

### i. Modern Portfolio Management & Global Capital Markets (July 2021)

#### Day I

- Session One: Global Capital Markets Structural Update
- Session Two: Modern Portfolio Management & Diversification
- Session Three: Basic Features of Fixed Income Securities & Valuation

#### Day II

- Session Four: Valuation of Fixed Income Instruments & QE
- Session Five: Fixed Income Portfolio Management & Risk Analysis

### ii. FX Reserves Management CBY Applications (September 2021)

#### Day I

- Session Six: Fixed Income Advanced Risk Analytics & Performance Attribution
- Session Seven: Reserves Management Policy & Instruments Global Best Practice

#### Day II

- Session Eight: Advanced Portfolio Analytics Application to Yemen
- Session Nine: Reserves Management Policy Applications to Yemen

### III. Program Learning Outcomes

At the end of the program participants are expected to understand, calculate, synthesize and apply modern portfolio management analytics, techniques and policies to the practice of reserves management at the CBY. Applications will be both in line with international best practice, in addition to having a Yemeni focused implementation strategy.

### IV. List of Suggested Background Readings

#### Textbooks:

Fabozzi, F. J. (2013) *Bond Markets, Analysis and Strategies*. 8<sup>th</sup> ed. Boston: Pearson Higher Education

Bodie, Kane, Marcus (2011) *Investments & Portfolio Management*. 9<sup>th</sup> ed. McGraw-Hill Education.

#### Other suggested references:

Aliber, Robert Z., 2011, "Financial Turbulence and International Investment," BIS Papers No 58, in 'Portfolio and Risk Management for Central Banks and Sovereign Wealth Funds,' Proceedings of a Joint Conference Organised by the BIS, ECB and World Bank, Basel.

Allen, William, Gabriele Galati, Richhild Moessner, and William Nelson, 2017, "Central Bank Swap Lines and CIP Deviations," De Nederlandsche Bank Working Paper No. 566, Amsterdam.

Ben-Bassat, A (1984): "Reserve-currency diversification and the substitution account", Princeton Studies in International Finance no 53, Princeton University, International Finance Section.

Bernadell, C, J Coche, FX Diebold and S Manganelli (eds) (2004): Risk management for central bank foreign reserves, European Central Bank.

Borio, C (2008): "The financial turmoil: a preliminary assessment and some policy considerations", BIS Working Papers, no 251, March, and forthcoming in the Bank of Spain's Financial Stability Report.

Borio, C, J Ebbesen, G Galati and A Heath (2008): "FX reserve management: elements of a framework", BIS Papers, no 38, March.

Cardon, P and J Coche (2004): "Strategic foreign allocation for foreign exchange reserves", in C Bernadell, J Coche, FX Diebold and S Manganelli (eds), Risk management for central bank foreign reserves, European Central Bank.

Eichengreen, B and DJ Mathieson (2000): "The currency composition of international reserves: retrospect and prospect", IMF Working Paper no 00/131, 1 July.

El-Erian, M (2007): "Asset-liability management in emerging economies", in J Johnson-Calari and M Rietveld (eds), Sovereign Wealth Management, Central Banking Publications, London.

Jeanne, O and R Rancière (2006): "The optimal level of international reserves for emerging market countries: formulas and applications", IMF Working Paper no 6/229, October.

Knight, MDK (2006): "International reserve diversification and disclosure", BIS Speeches, 8 September.

Roger, S (1993): "The management of foreign exchange reserves", BIS Economic Papers, no 38, July.

Wooldridge, PD (2006): "The changing composition of official reserves", BIS Quarterly Review, September, pp 25–28.



# مقدمة عن نظام إدارة الديون والتحليل المالي DMFAS 6



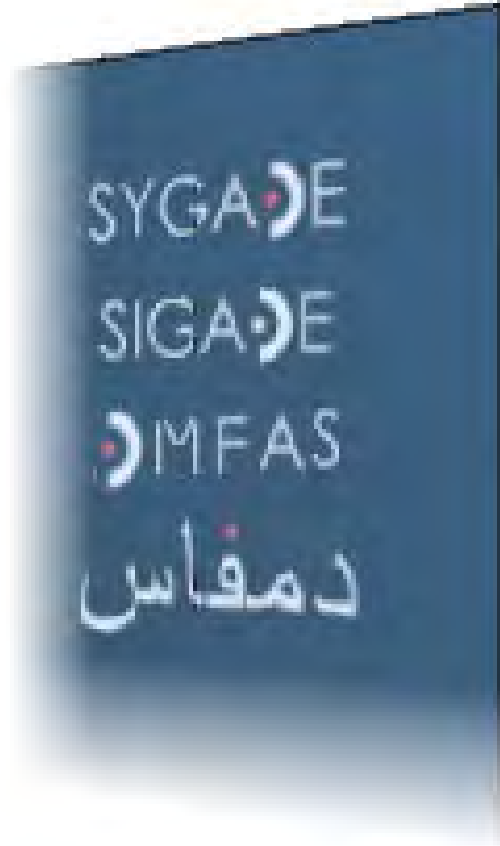
# نظام إدارة الديون والتحليل المالي DMFAS

- هو برنامج صممه مؤتمر الأمم المتحدة للتجارة والتنمية لمساعدة البلدان على إدارة ديونها العامة الخارجية والمحلية.
- يتابع التزامات الديون مثل الديون الحكومية والديون المضمونة من قبل الحكومة والقروض المعاد إقراضها، فضلاً عن المنح. كما يمكن استخدامه لرصد الديون الخارجية الخاصة غير المضمونة.
- يتم استخدامه عادة من قبل البنك المركزي و/أو وزارة المالية لتقديم معلومات دقيقة وفي حينها لإدارة الديون.

# DMFAS 6

- هو الإصدار الرئيسي السادس من برنامج DMFAS.
- تم تطويره باستخدام أحدث التقنيات ، فهو يوفر العديد من الميزات الجديدة وجميع وظائف DMFAS 5.3 لجميع مستويات المستخدمين.
- تم طلب معظم الميزات والوحدات الجديدة من قبل المؤسسات المستخدمة للبرنامج.

# DMFAS 6



- يمكن تخصيص واجهة DMFAS 6 وتعديلها وترجمتها بسهولة.
- DMFAS 6 متاح باللغات الإنجليزية والفرنسية والإسبانية والعربية.

# DMFAS 6



- يوفر DMFAS 6 وثائق شاملة بما في ذلك دليل المستخدم والمساعدة عبر الإنترنت والوثائق الفنية والبرامج التعليمية.



# DMFAS 6

بعض المعلومات الفنية عن البرنامج:

- يمكن تشغيل DMFAS 6 بشكل مستقل أو في شبكة.
- يمكن تثبيت DMFAS 6 على معظم أنظمة التشغيل.
- يستخدم DMFAS 6 نظام Oracle، وهو نظام إدارة قواعد البيانات المرتبطة .RDBMS.

# بوابة DMFAS 6



#### Negotiation

Auctions



#### Administration

Loans  
On-lent Loans  
Debt Securities  
Sukuk  
Private Ext. Debt  
Short-term Debt  
Grants  
General Agreements  
Issuance Authorization  
Debt Reorganization  
Reference Files



#### Mobilization

Loan Drawings  
On-lent Loan Drawings  
Debt Security Subscriptions  
Sukuk Subscriptions  
Grant Drawings  
Drawing Requests



#### Debt Service

Loans  
On-lent Loans  
Debt Securities  
Sukuk



#### Reports

Std Operational  
Std Analytical & Managerial  
UD Operational  
UD Analytical & Managerial  
Data Validation  
Statistical Bulletins  
World Bank Reports



#### Analysis

Debt Ratios  
Financial Indicators  
Sensitivity  
Debt Portfolio Analysis  
DSM+ Interface  
Risk Model Interface



Control Panel



Utilities



Inbox



Help

#### Sign In

User ID

Password

Login

- Resources on Debt Management
- DMFAS Documentation
- DMFAS Website
- What's New?
- Contact Help Desk

DMFAS 6.1.4.2 Build 36 Revision 2021.2036 (2021-02-04)

User:

# بوابة DMFAS 6

**DMFAS 6.0** 1  
DEBT MANAGEMENT AND FINANCIAL ANALYSIS SYSTEM

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT  
UNCTAD

**2**

**3**

**4**

**5**

1 تمثل هذه المنطقة الهوية المرئية للبوابة.

2 تحتوي هذه المنطقة على روابط لوحات DMFAS 6.

3 توفر الأيقونات الموجودة في هذه المنطقة الوصول إلى لوحة التحكم والأدوات المساعدة وصندوق الوارد والمساندة.

4 منطقة تسجيل الدخول هي المكان الذي يسجل فيه جميع المستخدمين الدخول إلى برنامج DMFAS 6 وهي مرتبطة بـ DMFAS security الذي يحدد استخدام الوحدات من قبل المستخدمين بحسب طبيعة وظائفهم.

5 تعرض هذه المنطقة عددًا من الروابط وهي:

- موارد عن ادارة الديون
- الموقع الالكتروني التابع لـ DMFAS 6
- ما الجديد؟
- الاتصال بمكتب المساعدة



# هيكلية دورة حياة أدوات الدين

تقوم بوابة DMFAS بهيكلة منطقية للوحدات بناءً على دورة الحياة النموذجية لاتفاقية أدوات الديون ، تكملها وظائف التقارير والتحليل.



**Negotiation**  
Auctions



**Administration**

Loans  
Debt Securities  
Private Non-Guaranteed External Debt  
Short-Term Debt  
Grants  
General Agreements  
Debt Reorganization  
On-lent Loans  
Reference Files



**Mobilization**

Loan Drawings  
Debt Security Subscriptions  
Grant Drawings



**Debt Service**

Loans  
Debt Securities



**Reports**

Standard Reports  
User-defined Reports  
Data Validation  
Statistical Bulletins  
World Bank Reports



**Analysis**

Debt Ratios  
Financial Indicators Sensitivity  
Debt Portfolio Analysis  
Debt Sustainability Interface  
Risk Model(s) Interface



Life Cycle

# وحدات 6 DMFAS

## مرحلة التفاوض Negotiation



Negotiation  
Auctions

التفاوض هو المرحلة الأولى في دورة حياة سند الدين.  
يحتوي على وحدة المزاد.



تُستخدم هذه الوحدة لتسجيل العطاءات على السندات على  
أساس سعر واحد أو متعدد الأسعار.

# وحدات 6 DMFAS



## Administration

Loans

Debt Securities

Private Non-Guaranteed External Debt

Short-Term Debt

Grants

General Agreements

Debt Reorganization

On-lent Loans

Reference Files

## الإدارة Administration


الإدارة هي المرحلة التالية في دورة الحياة. توجد وحدات مختلفة تحت هذه الفئة: القروض، القروض المعاد اقراضها، سندات الدين، الصكوك، الديون الخارجية الخاصة غير المضمونة، الديون الخارجية قصيرة الأجل، المنح، الاتفاقيات العامة، إعادة تنظيم الديون، والملفات المرجعية.

# وحدات DMFAS 6

في وحدة القروض ، يتم تسجيل المعلومات العامة حول اتفاقية القرض مثل الأطراف وقيمة القرض و عملة القرض والتواريخ وغيرها. يتم أيضًا تسجيل معلومات محددة مثل شروط رأس المال والفائدة والعمولة.



- Administration
- Loans
- Debt Securities
- Private Non-Guaranteed External Debt
- Short-Term Debt
- Grants
- General Agreements
- Debt Reorganization
- On-lent Loans
- Reference Files



- Loans
- General Information
- Tranches
- Commission Terms

### Loan - General Information

Agreement Info 1 | Agreement Info 2 | Participants | User info | Other Classifications | Notes | Attachments

**Identification**

Instrument ID	Name
22097000	LOAN59
Creditor Reference	Other Reference
PROV ENTRE RIOS	

**Maturity\***

Medium/Long-term  
 Short-term

**Status\***

ACTIVE

**Agreement Dates**

Signed*	Effective Limit*
11.02.1994	11.02.1994
Effective*	Drawing Limit*
11.02.1994	14.04.1995

**Agreement Amount**

Amount\*  
8,151,551.420

Currency\*  
USD =  Currency Pool Loan

# وحدات 6 DMFAS

تعتمد وحدة سندات الدين لتسجيل جميع أنواع سندات الدين من المدى القصير إلى المدى الطويل. الوحدة مقسمة إلى 4 فئات رئيسية من الأدوات.

DEBT SECURITIES	
Money Market Instruments	→ Discount
	→ Interest bearing
Bonds and Notes	→ Zero Coupon
	→ Fixed Rate
	→ Floating Rate
	→ Stepped
	→ Annuity
	→ Perpetual
	→ Other
Promissory Notes	→ Discount
	→ Interest bearing
Other Securities	


Administration
Loans
Debt Securities
Private Non-Guaranteed External Debt
Short-Term Debt
Grants
General Agreements
Debt Reorganization
On-lent Loans
Reference Files



# وحدات DMFAS 6

بالنسبة للديون الخارجية الخاصة غير المضمونة ، يتيح DMFAS 6 للمستخدمين إدخال البيانات بطريقة يدوية أو استيراد من Excel .



# وحدات DMFAS 6

الديون الخارجية قصيرة الأجل هي وحدة إدارية أخرى مخصصة على وجه التحديد لتسجيل الديون الخارجية ذات الاستحقاق الأصلي لمدة عام واحد أو أقل.



## Administration

Loans

Debt Securities

Private Non-Guaranteed External Debt

Short-Term Debt

Grants

General Agreements

Debt Reorganization

On-lent Loans

Reference Files

Short-Term External Debt: Aggregated

Outstanding: Beginning of Period | Principal Transactions | Interest/Fees Transactions | Outstanding: End of Period | User Defined Info

**Debtor Classification**

Debtor Name\*  Debtor Category  Debtor Sector

**Parameters**

From\*  To\*  Curr.\*

**Instrument Classification**

	Totals	of which Principal Arrears	of which Interest Arrears
Trade Credits	<input type="text"/>	<input type="text"/>	<input type="text"/>
Loans	<input type="text"/>	<input type="text"/>	<input type="text"/>
Money Market Instruments	<input type="text"/>	<input type="text"/>	<input type="text"/>
Currencies and Deposits	<input type="text"/>	<input type="text"/>	<input type="text"/>
Other	<input type="text"/>	<input type="text"/>	<input type="text"/>

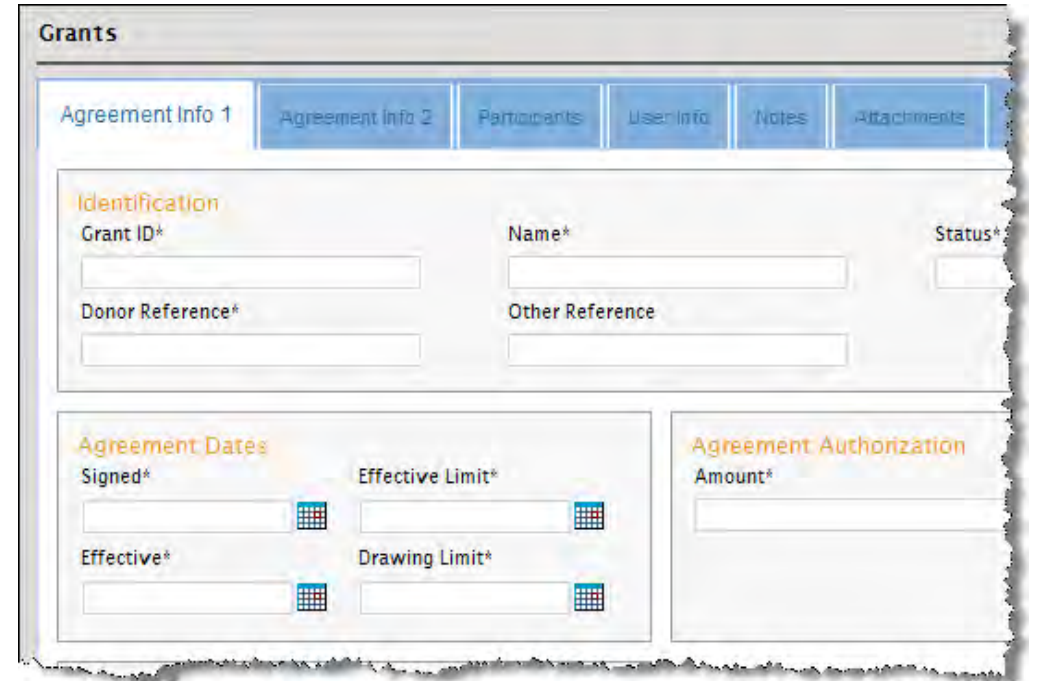
Projections

# وحدات DMFAS 6

تُستخدم وحدة المنح لتسجيل أو تحديث المعلومات المتعلقة بالمنح. يتم إدخال المعلومات في نافذة رئيسية واحدة تحتوي على بيانات المشروع.



Administration  
Loans  
Debt Securities  
Private Non-Guaranteed External Debt  
Short-Term Debt  
Grants  
General Agreements  
Debt Reorganization  
On-lent Loans  
Reference Files



Grants

Agreement Info 1 Agreement Info 2 Participants User Info Notes Attachments

Identification

Grant ID\* Name\* Status\*

Donor Reference\* Other Reference

Agreement Dates

Signed\* Effective Limit\*

Effective\* Drawing Limit\*

Agreement Authorization

Amount\*

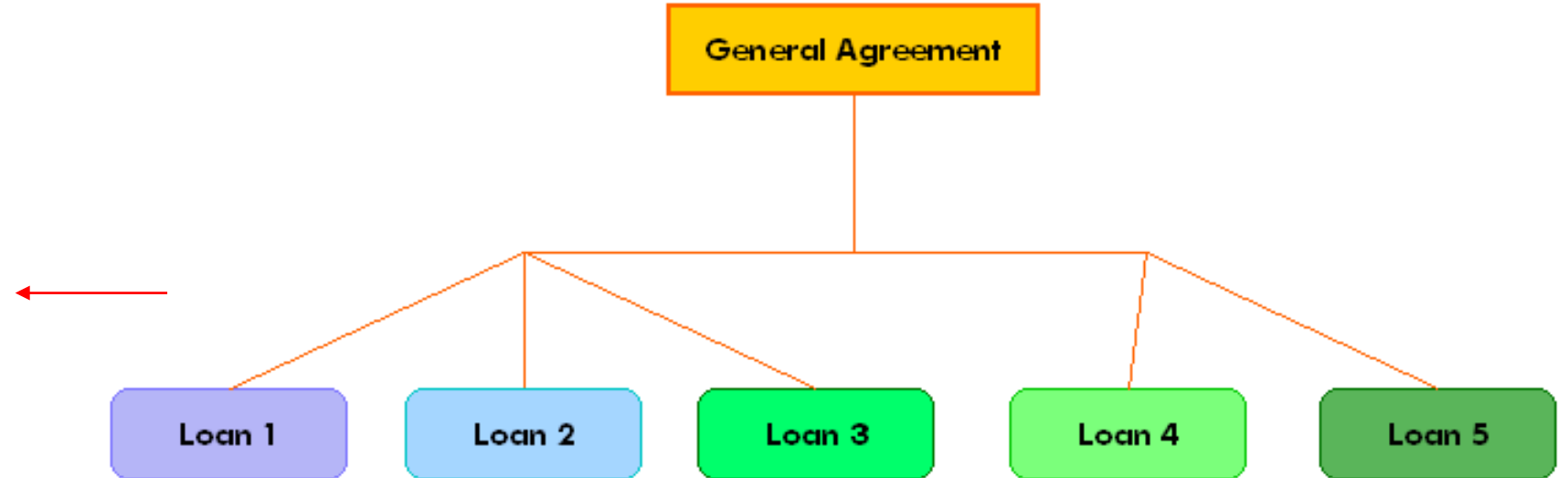


# وحدات DMFAS 6

تم تصميم وحدة الالتقاط البيانات حول الاتفاقات العامة التي تغطي العديد من الأدوات الفردية. يمكن إنشاء رابط بين اتفاقية عامة والاتفاقيات الناشئة عنها.



- Administration
- Loans
- Debt Securities
- Private Non-Guaranteed External Debt
- Short-Term Debt
- Grants
- General Agreements
- Debt Reorganization
- On-lent Loans
- Reference Files



# وحدات DMFAS 6

يمكن لوحدة إعادة التنظيم التعامل مع جميع أنواع إعادة تنظيم الديون بما في ذلك: إعادة التمويل وإعادة الجدولة والإعفاء وتحويل الديون والدفعات المسبقة (عمليات إعادة الشراء).



- Administration
- Loans
- Debt Securities
- Private Non-Guaranteed External Debt
- Short-Term Debt
- Grants
- General Agreements
- Debt Reorganization
- On-lent Loans
- Reference Files

General Information  
Relate Instruments  
Apply Reorganization

Reorganization - General Information

Reorganization Id*	1	Reorganization Group*	PARIS CLUB
Date Signed*	01.01.2009	Date Effective	01.01.2009
Date Authorized	01.01.2009	Cut Off Date*	31.12.2008
Date For Arrears	31.12.2008	Date For Outstanding	01.01.2009

**Debt Minimums**

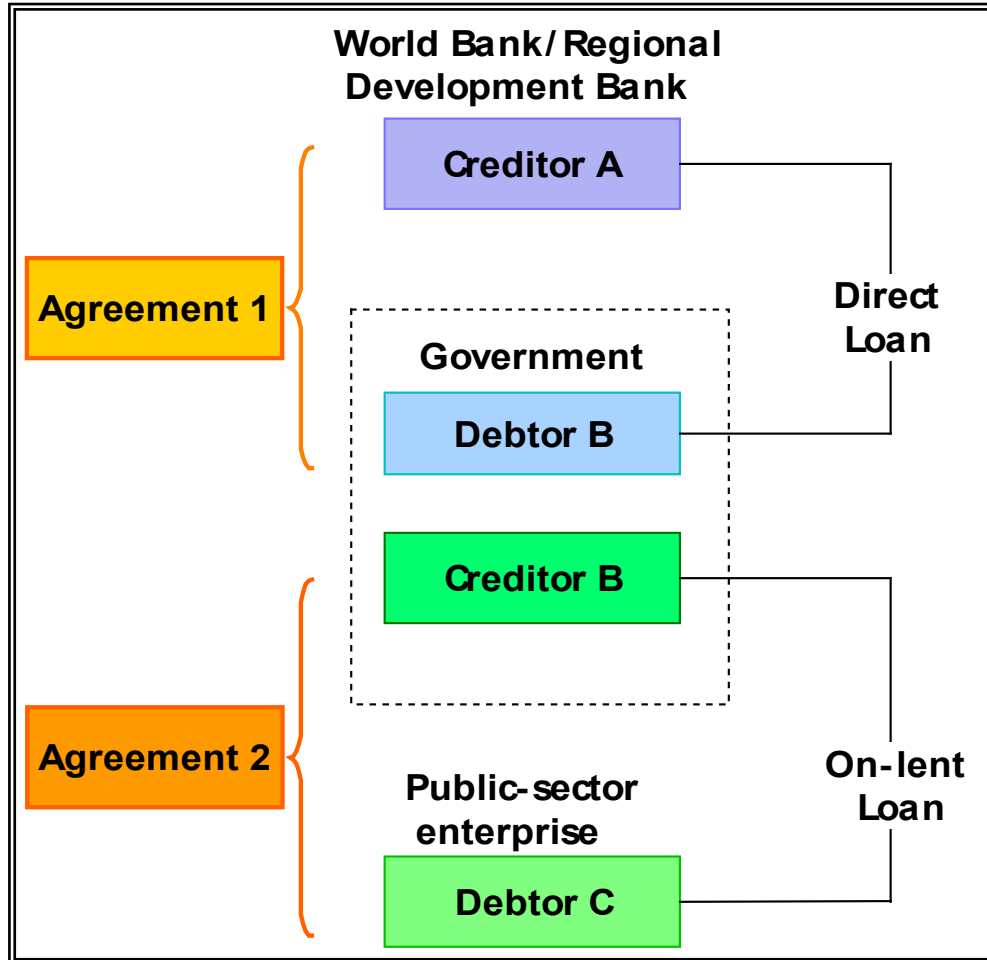
Amount	10.000.000.000	Currency	SDR
--------	----------------	----------	-----

**Consolidation Period**

Start Date	01.01.2009	End Date	30.06.2009	<input type="checkbox"/> Sub-Periods
------------	------------	----------	------------	--------------------------------------

Reorganization Terms | Bilateral Agreements | Hpc Stage

# وحدات DMFAS 6



وحدة القروض المعاد إقراضها تسجل القروض التي اقترضتها الحكومة لكيانات القطاع العام.

فيما يتعلق بالمحاسبة ، فإن القروض المعاد إقراضها هي أصل وليست التزامًا.

- 
- Administration
  - Loans
  - Debt Securities
  - Private Non-Guaranteed External Debt
  - Short-Term Debt
  - Grants
  - General Agreements
  - Debt Reorganization
  - On-lent Loans
  - Reference Files



# وحدات DMFAS 6

الملفات المرجعية هي نقطة البداية للعمل في DMFAS 6.

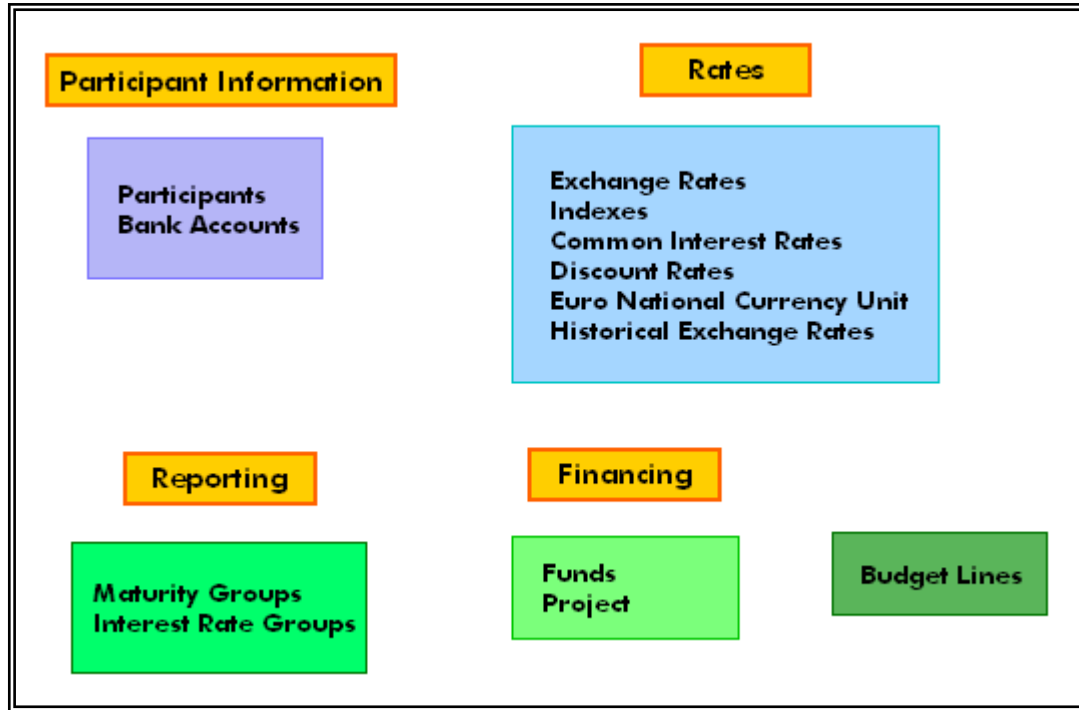
تحتوي على معلومات مفصلة يمكن الرجوع إليها

من العديد من نوافذ DMFAS

وهي تشمل البيانات الأساسية والاختيارية حول

المشاركين وأسعار الصرف وخطوط الميزانية

والتمويل المتعلق بالاتفاقية.



# وحدات 6 DMFAS

## Mobilization

هو المكان حيث يتم تسجيل السحوبات على القروض أو القروض المعاد اقراضها أو الديون الخارجية الخاصة أو المنح وتسجيل الاشتراكات في سندات الدين والصكوك.

Real Drawings

Drawings Info User Defined Fields Notes

**Instrument**

Loan ID\* 220000000 = Tranche\* 1 =

Loan Currency EUR Undisbursed Amount 1.00

**Drawing Identification**

Request No. Reference

**Link To**

Project Programme

**Drawing Related Dates**

Creditor Value Date\* 14.04.1994 = Date Received 14.04.1994 =

**Exchange Rates**

Date Local Exchange Rate\* 14.04.1994 = Exchange Arrangement =

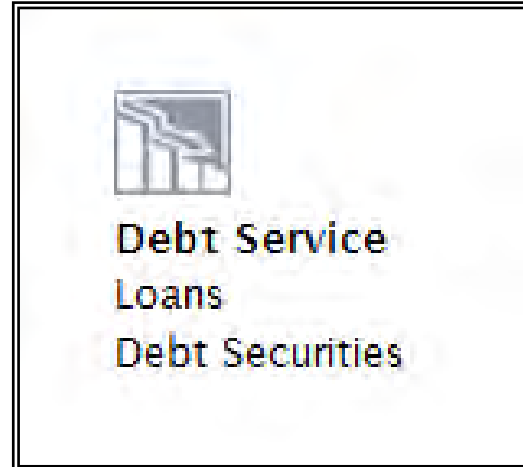
**Amounts**

Amount Effected Currency*	Amount Tranche Currency*	Amount EUR*
274,602.66 EUR =	274,602.66 EUR	274,602.66 EUR
Amount Local Currency*	Amount Loan Currency*	Amount USD*
324,805.52 ARP	274,602.66 EUR	324,805.52 USD

# وحدات 6 DMFAS

## خدمة الدين Debt Service

هو المكان الذي يتم فيه تسجيل عمليات خدمة الدين من رأس مال وفوائد وعمولات وفوائد متأخرة للقروض والقروض المعاد اقراضها وسندات الدين والديون الخارجية الخاصة. يتم تسجيل أصل الصكوك والعائد ورسومها هنا أيضًا.



# وحدات DMFAS 6

Debt Service Operation

Principal And Interest | Commissions | Penalty Interest

Instrument

ID: 50537000 Serie No: 2 Serie Currency: UCP

Maturities

Date	P/I	Amount in Tranche / Series Currency	Payment Order	Status
31.12.2006	P	8,085,819.460		PAID
31.12.2006	I	2,451,887.690		PAID
30.01.2007	P	404,290.970		PAID
30.01.2007	I	51,313.850		PAID
28.02.2007	P	404,290.970		PAID
28.02.2007	I	50,640.040		PAID
30.03.2007	P	404,290.970		PAID
30.03.2007	I	49,966.220		PAID

Record

Payment | Rescheduling | Forgiveness

Arrears | Buybacks | Swap | Stripped

عمليات خدمة الدين المجدولة والفعلية مع وضعها

منطقة لاختيار أنواع عمليات خدمة الدين

# وحدات 6 DMFAS



يمكن أيضًا استخدام أداة العمليات التلقائية لتسجيل مدفوعات خدمة الدين أو المتأخرات لمجموعة من القروض أو سندات الدين. ومع ذلك ، يجب استخدامه في حالات محددة وليس بالطريقة المعتادة لتسجيل عمليات خدمة الديون في نظام إدارة الديون والتحليل المالي.



# وحدات 6 DMFAS

## التقارير Reports

بواسطة 6 DMFAS من الممكن إصدار مجموعة واسعة من التقارير القياسية والمتخصصة:



### Reports

Standard Reports

User-defined Reports

Data Validation

Statistical Bulletins

World Bank Reports

**التقارير القياسية:** هي تقارير محددة مسبقًا يتم تسليمها مع النظام. هذه تقارير تشغيلية وتحليلية وإدارية تم إنشاؤها من قبل الفريق المركزي لبرنامج DMFAS.

**تقارير من تحديد المستخدم:** هي تقارير يتم إنشاؤها بواسطة مستخدم DMFAS في البلدان. يمكن أن تكون هذه التقارير تشغيلية وكذلك تحليلية وإدارية.

# وحدات 6 DMFAS (يتبع)

التحقق من صحة البيانات: هي تقارير محددة مسبقًا تتيح لك التحقق من دقة وتناسق البيانات المسجلة في قاعدة البيانات.



## Reports

Standard Reports

User-defined Reports

Data Validation

Statistical Bulletins

World Bank Reports

النشرات الإحصائية للبيانات: تحتوي على مكتبة من التقارير التي يمكن تضمينها في نشرة إحصائية للديون.

تقارير البنك الدولي: تتيح إمكانية إنشاء النموذجين 1 و 2 من نظام الإبلاغ عن المدينين.

# وحدات 6 DMFAS (يتبع)

## التحليل Analysis

تتضمن هذه الفئة ميزات جديدة متخصصة لمديري الديون في المكاتب الوسطى وتضم:



### Analysis

Debt Ratios

Financial Indicators

Sensitivity

Debt Portfolio Analysis

Debt Sustainability Interface

Risk Model(s) Interface

**نسب الدين:** وهي مقاييس تستخدم للإشارة إلى المخاطر المحتملة المتعلقة بالديون. وهي تنقسم إلى ثلاث فئات عامة: ديون القطاع العام، وديون القطاع العام الخارجي، والدين المحلي.

# وحدات 6 DMFAS (يتبع)

## التحليل Analysis

المؤشرات المالية: وهي التدابير التحليلية الرئيسية المستخدمة لتقييم الديون، وتشمل:

عصر المنحة: الذي يقيس التيسير في القرض

متوسط الشروط: فيما يتعلق بأسعار الفائدة وأجال الاستحقاق والعمر وفترات السماح لمجموعة مختارة من القروض



### Analysis

Debt Ratios

Financial Indicators

Sensitivity

Debt Portfolio Analysis

Debt Sustainability Interface

Risk Model(s) Interface

# وحدات 6 DMFAS (يتبع)



## Analysis

Debt Ratios

Financial Indicators

Sensitivity

Debt Portfolio Analysis

Debt Sustainability Interface

Risk Model(s) Interface

**تحليل الحساسية:** يستخدم لعمل توقعات حول كيفية تأثير التغيرات في أسعار الفائدة و/أو أسعار الصرف على خدمة ديون الدولة، وبالتالي على قدرتها على تحمل ديونها.

**تحليل محفظة الديون:** يهدف إلى تحسين قدرة مديري الدين العام على تقييم هيكل وديناميكيات ومخاطر محافظ الديون السيادية.

**واجهة استدامة الديون:** تعمل كواجهة بين DMFAS وتطبيق DSM+ التابع للبنك الدولي، والذي لم يعد مدعومًا من قبل DMFAS.

# وحدات 6 DMFAS (يتبع)



## Analysis

Debt Ratios

Financial Indicators

Sensitivity

Debt Portfolio Analysis

Debt Sustainability Interface

Risk Model(s) Interface

واجهة نموذج المخاطر: يتم استخدامها في نظام نموذج المخاطر. هي نسخة مخصصة من أداة استراتيجية الدين متوسطة الأجل MTDS وهي إطار عمل تم تطويره بشكل مشترك من قبل البنك الدولي وصندوق النقد الدولي. وهو يشتمل على نهج "أفضل الممارسات" الذي يوجه مكاتب إدارة الديون في تصميم بالاضافة الى كونها أداة تحليلية.

شكراً

# مقدمة عن نظام إدارة الديون والتحليل المالي DMFAS 6





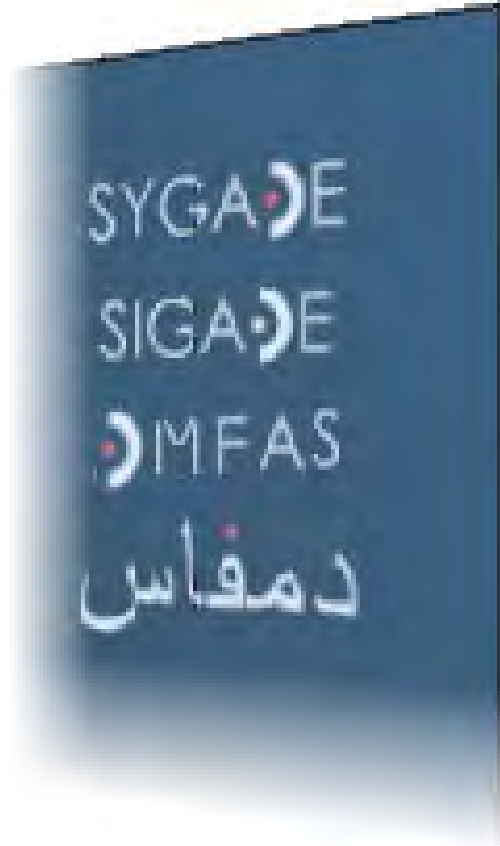
# نظام إدارة الديون والتحليل المالي DMFAS

- هو برنامج صممه مؤتمر الأمم المتحدة للتجارة والتنمية لمساعدة البلدان على إدارة ديونها العامة الخارجية والمحلية.
- يتابع التزامات الديون مثل الديون الحكومية والديون المضمونة من قبل الحكومة والقروض المعاد إقراضها، فضلاً عن المنح. كما يمكن استخدامه لرصد الديون الخارجية الخاصة غير المضمونة.
- يتم استخدامه عادة من قبل البنك المركزي و/أو وزارة المالية لتقديم معلومات دقيقة وفي حينها لإدارة الديون.

# DMFAS 6

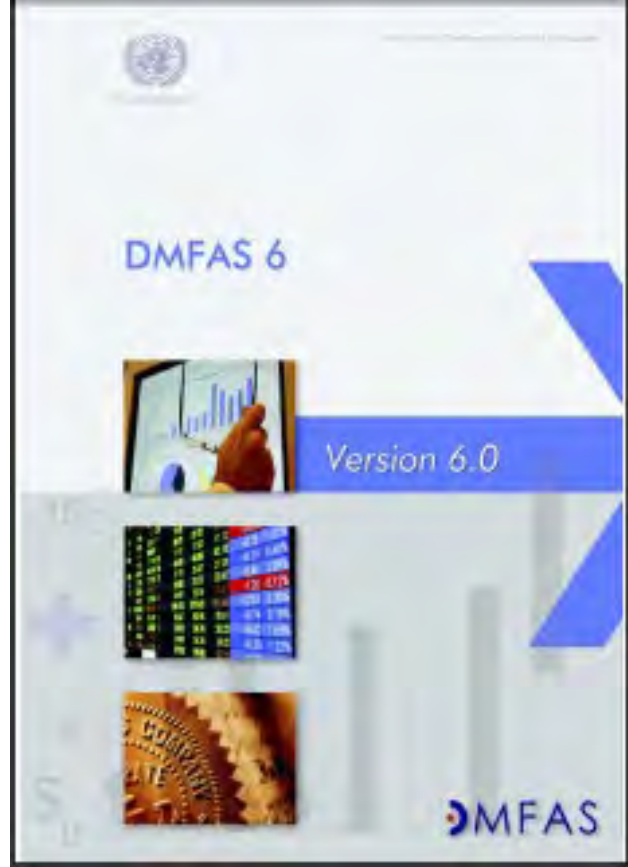
- هو الإصدار الرئيسي السادس من برنامج DMFAS.
- تم تطويره باستخدام أحدث التقنيات ، فهو يوفر العديد من الميزات الجديدة وجميع وظائف DMFAS 5.3 لجميع مستويات المستخدمين.
- تم طلب معظم الميزات والوحدات الجديدة من قبل المؤسسات المستخدمة للبرنامج.

# DMFAS 6



- يمكن تخصيص واجهة DMFAS 6 وتعديلها وترجمتها بسهولة.
- DMFAS 6 متاح باللغات الإنجليزية والفرنسية والإسبانية والعربية.

# DMFAS 6



- يوفر DMFAS 6 وثائق شاملة بما في ذلك دليل المستخدم والمساعدة عبر الإنترنت والوثائق الفنية والبرامج التعليمية.



# DMFAS 6

بعض المعلومات الفنية عن البرنامج:

- يمكن تشغيل DMFAS 6 بشكل مستقل أو في شبكة.
- يمكن تثبيت DMFAS 6 على معظم أنظمة التشغيل.
- يستخدم DMFAS 6 نظام Oracle، وهو نظام إدارة قواعد البيانات المرتبطة .RDBMS.

# بوابة DMFAS 6



#### Negotiation

Auctions



#### Administration

Loans  
On-lent Loans  
Debt Securities  
Sukuk  
Private Ext. Debt  
Short-term Debt  
Grants  
General Agreements  
Issuance Authorization  
Debt Reorganization  
Reference Files



#### Mobilization

Loan Drawings  
On-lent Loan Drawings  
Debt Security Subscriptions  
Sukuk Subscriptions  
Grant Drawings  
Drawing Requests



#### Debt Service

Loans  
On-lent Loans  
Debt Securities  
Sukuk



#### Reports

Std Operational  
Std Analytical & Managerial  
UD Operational  
UD Analytical & Managerial  
Data Validation  
Statistical Bulletins  
World Bank Reports



#### Analysis

Debt Ratios  
Financial Indicators  
Sensitivity  
Debt Portfolio Analysis  
DSM+ Interface  
Risk Model Interface



Control Panel



Utilities



Inbox



Help

#### Sign In

User ID

Password

Login

- Resources on Debt Management
- DMFAS Documentation
- DMFAS Website
- What's New?
- Contact Help Desk

DMFAS 6.1.4.2 Build 36 Revision 2021.2036 (2021-02-04)

User:

# بوابة DMFAS 6

DMFAS 6.0 DEBT MANAGEMENT AND FINANCIAL ANALYSIS SYSTEM

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT UNCTAD

**1**

**2**

**3**

**4**

**5**

**1** Negotiation Auctions

**2** Administration Loans On Lent Loan Debt Securities Sukuk Private Ext. Debt Short-term Debt Grants General Agreements Debt Reorganization Reference Files

Mobilization Loan Drawings On-lent Loans Drawing Debt Security Subscriptions Sukuk Subscriptions Grant Drawings Drawing Request

Debt Service Loans On Lent Loan Debt Securities Sukuk

Reports Std Operational Std Analytical & Managerial UD Operational UD Analytical & Managerial Data Validation Statistical Bulletins World Bank Reports

Analysis Debt Ratios Financial Indicators Sensitivity Debt Portfolio Analysis DSM- Interface Risk Model Interface

Control Panel Utilities Inbox Help

Sign In **4** User ID Password Login

**5** Resources on Debt Management DMFAS Documentation DMFAS Website Whats New Contact Help Desk

تمثل هذه المنطقة الهوية المرئية للبوابة.

تحتوي هذه المنطقة على روابط لوحات DMFAS 6.

توفر الأيقونات الموجودة في هذه المنطقة الوصول إلى لوحة التحكم والأدوات المساعدة وصندوق الوارد والمساندة.

منطقة تسجيل الدخول هي المكان الذي يسجل فيه جميع المستخدمين الدخول إلى برنامج DMFAS 6 وهي مرتبطة بـ DMFAS security الذي يحدد استخدام الوحدات من قبل المستخدمين بحسب طبيعة وظائفهم.

تعرض هذه المنطقة عددًا من الروابط وهي:

- موارد عن ادارة الديون
- الموقع الالكتروني التابع لـ DMFAS 6
- ما الجديد؟
- الاتصال بمكتب المساعدة

# هيكلية دورة حياة أدوات الدين

تقوم بوابة DMFAS بهيكلة منطقية للوحدات بناءً على دورة الحياة النموذجية لاتفاقية أدوات الديون ، تكملها وظائف التقارير والتحليل.



**Negotiation**  
Auctions



**Administration**

Loans  
Debt Securities  
Private Non-Guaranteed External Debt  
Short-Term Debt  
Grants  
General Agreements  
Debt Reorganization  
On-lent Loans  
Reference Files



**Mobilization**

Loan Drawings  
Debt Security Subscriptions  
Grant Drawings



**Debt Service**

Loans  
Debt Securities



**Reports**

Standard Reports  
User-defined Reports  
Data Validation  
Statistical Bulletins  
World Bank Reports



**Analysis**

Debt Ratios  
Financial Indicators Sensitivity  
Debt Portfolio Analysis  
Debt Sustainability Interface  
Risk Model(s) Interface



Life Cycle



# وحدات 6 DMFAS

## مرحلة التفاوض Negotiation



Negotiation  
Auctions

التفاوض هو المرحلة الأولى في دورة حياة سند الدين. يحتوي على وحدة المزاد.



تُستخدم هذه الوحدة لتسجيل العطاءات على السندات على أساس سعر واحد أو متعدد الأسعار.

# وحدات 6 DMFAS



## Administration

Loans

Debt Securities

Private Non-Guaranteed External Debt

Short-Term Debt

Grants

General Agreements

Debt Reorganization

On-lent Loans

Reference Files

## الإدارة Administration


الإدارة هي المرحلة التالية في دورة الحياة. توجد وحدات مختلفة تحت هذه الفئة: القروض، القروض المعاد اقراضها، سندات الدين، الصكوك، الديون الخارجية الخاصة غير المضمونة، الديون الخارجية قصيرة الأجل، المنح، الاتفاقيات العامة، إعادة تنظيم الديون، والملفات المرجعية.

# وحدات DMFAS 6

في وحدة القروض ، يتم تسجيل المعلومات العامة حول اتفاقية القرض مثل الأطراف وقيمة القرض و عملة القرض والتواريخ وغيرها. يتم أيضًا تسجيل معلومات محددة مثل شروط رأس المال والفائدة والعمولة.



- Administration
- Loans
- Debt Securities
- Private Non-Guaranteed External Debt
- Short-Term Debt
- Grants
- General Agreements
- Debt Reorganization
- On-lent Loans
- Reference Files



- Loans
- General Information
- Tranches
- Commission Terms

### Loan - General Information

Agreement Info 1 | Agreement Info 2 | Participants | User info | Other Classifications | Notes | Attachments

**Identification**

Instrument ID	Name
22097000	LOAN59
Creditor Reference	Other Reference
PROV ENTRE RIOS	

**Maturity\***

Medium/Long-term  
 Short-term

**Status\***

ACTIVE

**Agreement Dates**

Signed*	Effective Limit*
11.02.1994	11.02.1994
Effective*	Drawing Limit*
11.02.1994	14.04.1995

**Agreement Amount**

Amount\*

8,151,551.420

Currency\*

USD =  Currency Pool Loan

# وحدات 6 DMFAS

تعتمد وحدة سندات الدين لتسجيل جميع أنواع سندات الدين من المدى القصير إلى المدى الطويل. الوحدة مقسمة إلى 4 فئات رئيسية من الأدوات.

DEBT SECURITIES	
Money Market Instruments	→ Discount
	→ Interest bearing
Bonds and Notes	→ Zero Coupon
	→ Fixed Rate
	→ Floating Rate
	→ Stepped
	→ Annuity
	→ Perpetual
	→ Other
Promissory Notes	→ Discount
	→ Interest bearing
Other Securities	


Administration
Loans
Debt Securities
Private Non-Guaranteed External Debt
Short-Term Debt
Grants
General Agreements
Debt Reorganization
On-lent Loans
Reference Files



# وحدات 6 DMFAS

بالنسبة للديون الخارجية الخاصة غير المضمونة ، يتيح 6 DMFAS للمستخدمين إدخال البيانات بطريقة يدوية أو استيراد من Excel .



# وحدات DMFAS 6

الديون الخارجية قصيرة الأجل هي وحدة إدارية أخرى مخصصة على وجه التحديد لتسجيل الديون الخارجية ذات الاستحقاق الأصلي لمدة عام واحد أو أقل.



## Administration

Loans

Debt Securities

Private Non-Guaranteed External Debt

Short-Term Debt

Grants

General Agreements

Debt Reorganization

On-lent Loans

Reference Files

Short-Term External Debt: Aggregated

Outstanding: Beginning of Period | Principal Transactions | Interest/Fees Transactions | Outstanding: End of Period | User Defined Info

**Debtor Classification**

Debtor Name\*  Debtor Category  Debtor Sector

**Parameters**

From\*  To\*  Curr.\*

**Instrument Classification**

	Totals	of which Principal Arrears	of which Interest Arrears
Trade Credits	<input type="text"/>	<input type="text"/>	<input type="text"/>
Loans	<input type="text"/>	<input type="text"/>	<input type="text"/>
Money Market Instruments	<input type="text"/>	<input type="text"/>	<input type="text"/>
Currencies and Deposits	<input type="text"/>	<input type="text"/>	<input type="text"/>
Other	<input type="text"/>	<input type="text"/>	<input type="text"/>

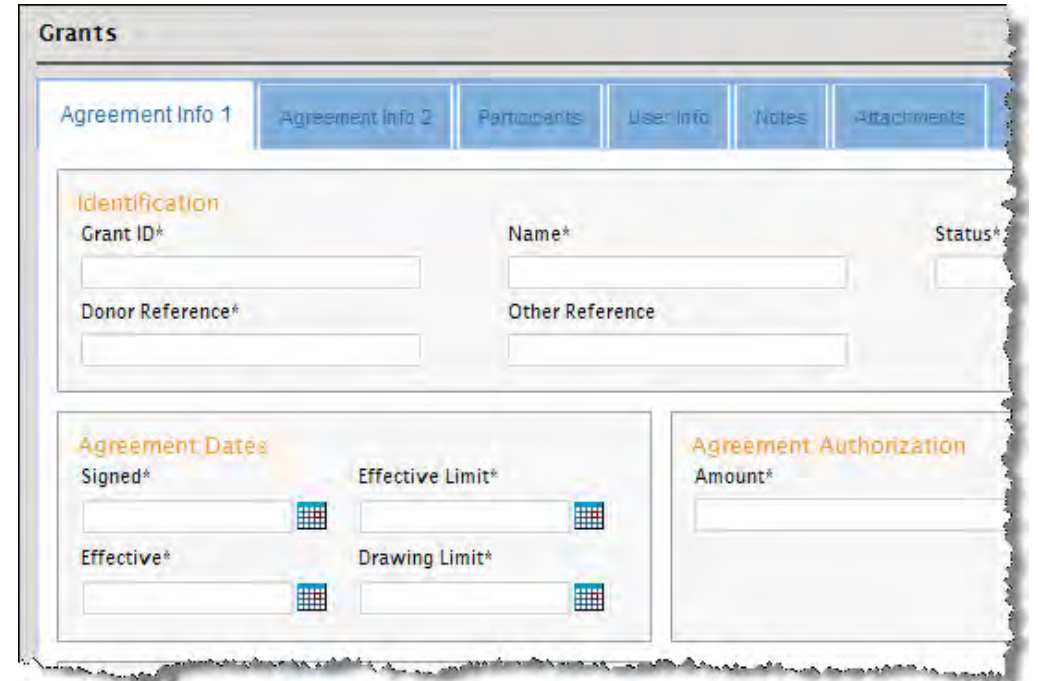
Projections

# وحدات DMFAS 6

تُستخدم وحدة المنح لتسجيل أو تحديث المعلومات المتعلقة بالمنح. يتم إدخال المعلومات في نافذة رئيسية واحدة تحتوي على بيانات المشروع.



Administration  
Loans  
Debt Securities  
Private Non-Guaranteed External Debt  
Short-Term Debt  
Grants  
General Agreements  
Debt Reorganization  
On-lent Loans  
Reference Files



Grants

Agreement Info 1 Agreement Info 2 Participants User Info Notes Attachments

Identification

Grant ID\* Name\* Status\*

Donor Reference\* Other Reference

Agreement Dates

Signed\* Effective Limit\*

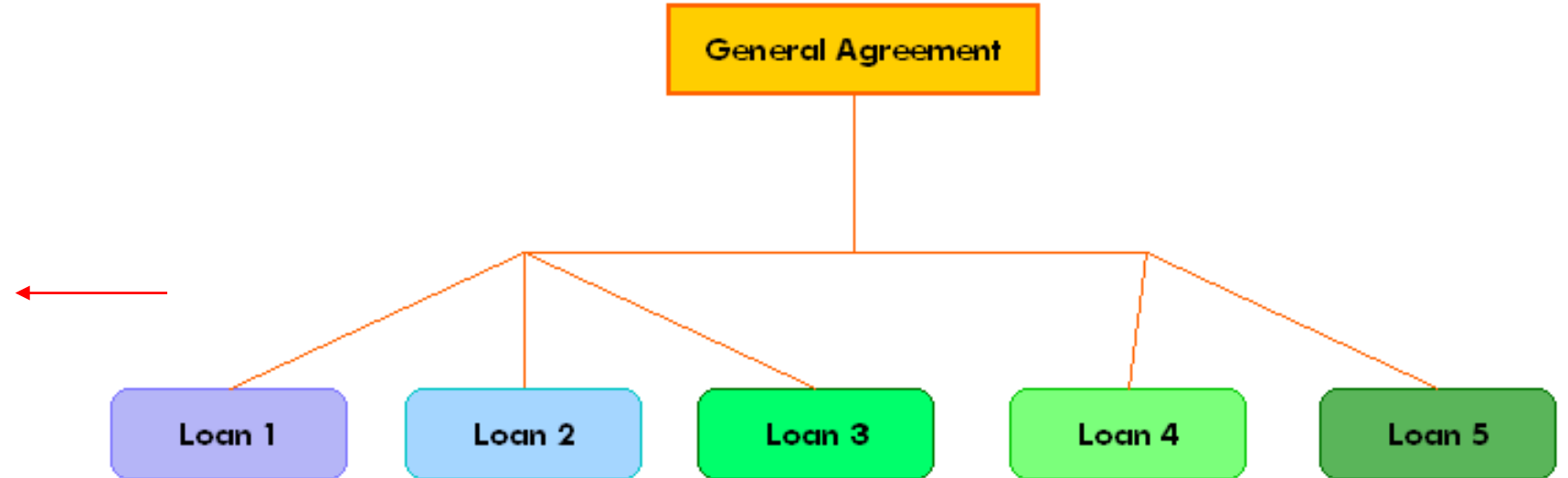
Effective\* Drawing Limit\*

Agreement Authorization

Amount\*

# وحدات DMFAS 6

تم تصميم وحدة الالتقاط البيانات حول الاتفاقات العامة التي تغطي العديد من الأدوات الفردية. يمكن إنشاء رابط بين اتفاقية عامة والاتفاقيات الناشئة عنها.





# وحدات DMFAS 6

يمكن لوحدة إعادة التنظيم التعامل مع جميع أنواع إعادة تنظيم الديون بما في ذلك: إعادة التمويل وإعادة الجدولة والإعفاء وتحويل الديون والدفعات المسبقة (عمليات إعادة الشراء).



- Administration
- Loans
- Debt Securities
- Private Non-Guaranteed External Debt
- Short-Term Debt
- Grants
- General Agreements
- Debt Reorganization
- On-lent Loans
- Reference Files

General Information  
Relate Instruments  
Apply Reorganization

Reorganization - General Information

Reorganization Id*	1	Reorganization Group*	PARIS CLUB
Date Signed*	01.01.2009	Date Effective	01.01.2009
Date Authorized	01.01.2009	Cut Off Date*	31.12.2008
Date For Arrears	31.12.2008	Date For Outstanding	01.01.2009

**Debt Minimums**

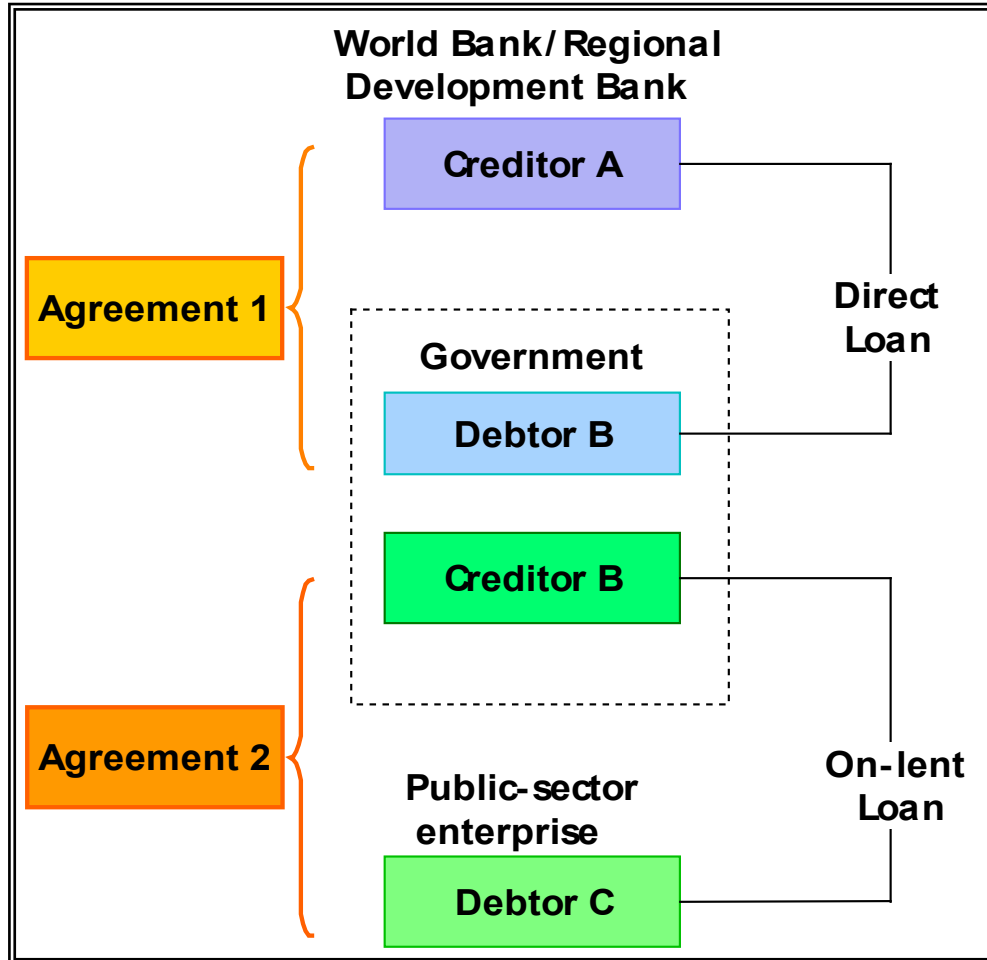
Amount	10.000.000.000	Currency	SDR
--------	----------------	----------	-----

**Consolidation Period**

Start Date	01.01.2009	End Date	30.06.2009	<input type="checkbox"/> Sub-Periods
------------	------------	----------	------------	--------------------------------------

Reorganization Terms | Bilateral Agreements | Hpc Stage

# وحدات DMFAS 6



وحدة القروض المعاد إقراضها تسجل القروض التي اقترضتها الحكومة لكيانات القطاع العام.

فيما يتعلق بالمحاسبة ، فإن القروض المعاد إقراضها هي أصل وليست التزامًا.

- 
- Administration
  - Loans
  - Debt Securities
  - Private Non-Guaranteed External Debt
  - Short-Term Debt
  - Grants
  - General Agreements
  - Debt Reorganization
  - On-lent Loans
  - Reference Files



# وحدات DMFAS 6

الملفات المرجعية هي نقطة البداية للعمل في DMFAS 6.

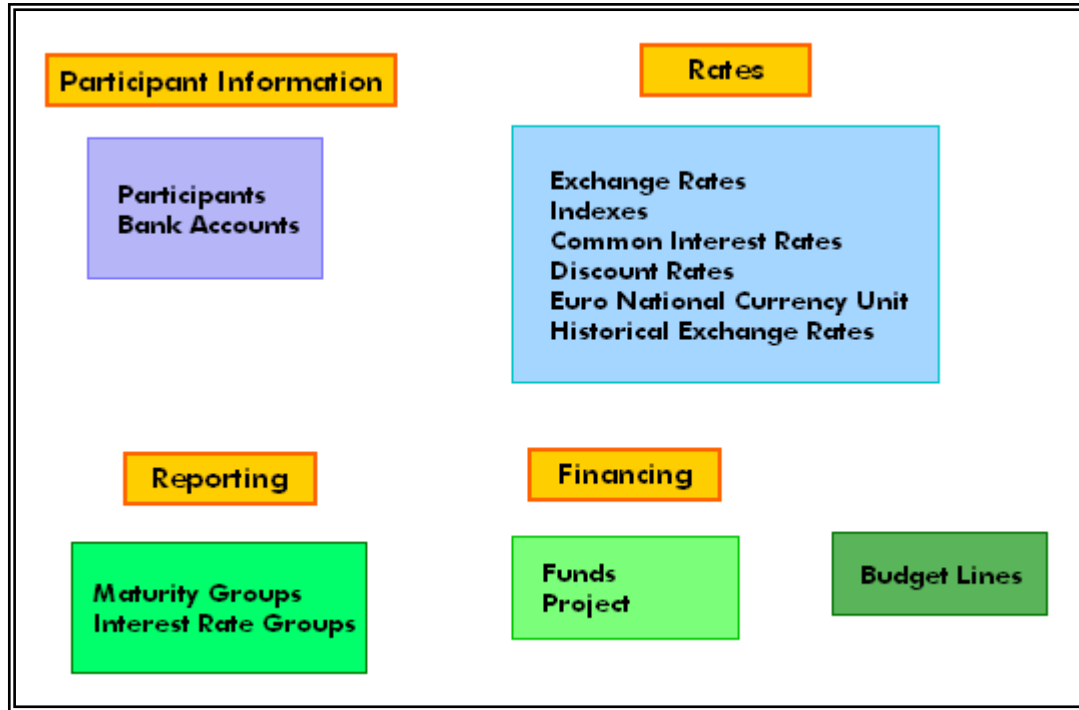
تحتوي على معلومات مفصلة يمكن الرجوع إليها

من العديد من نوافذ DMFAS

وهي تشمل البيانات الأساسية والاختيارية حول

المشاركين وأسعار الصرف وخطوط الميزانية

والتمويل المتعلق بالاتفاقية.



# وحدات 6 DMFAS

## Mobilization

هو المكان حيث يتم تسجيل السحوبات على القروض أو القروض المعاد اقراضها أو الديون الخارجية الخاصة أو المنح وتسجيل الاشتراكات في سندات الدين والصكوك.

Real Drawings

Drawings Info User Defined Fields Notes

**Instrument**

Loan ID\* 220000000 = Tranche\* 1 =

Loan Currency EUR Undisbursed Amount 1.00

**Drawing Identification**

Request No. Reference

**Link To**

Project Programme

**Drawing Related Dates**

Creditor Value Date\* 14.04.1994 = Date Received 14.04.1994 =

**Exchange Rates**

Date Local Exchange Rate\* 14.04.1994 = Exchange Arrangement =

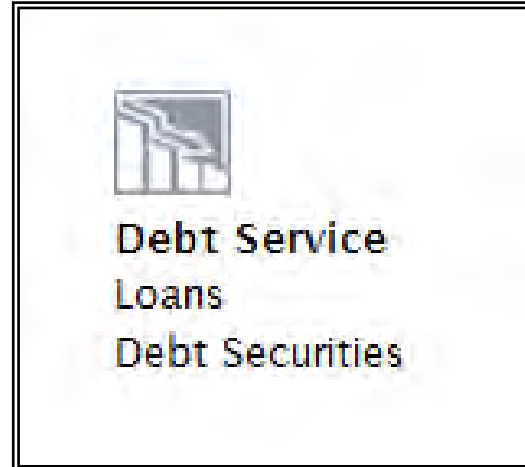
**Amounts**

Amount Effected Currency*	Amount Tranche Currency*	Amount EUR*
274,602.66 EUR =	274,602.66 EUR	274,602.66 EUR
Amount Local Currency*	Amount Loan Currency*	Amount USD*
324,805.52 ARP	274,602.66 EUR	324,805.52 USD

# وحدات 6 DMFAS

## خدمة الدين Debt Service

هو المكان الذي يتم فيه تسجيل عمليات خدمة الدين من رأس مال وفوائد وعمولات وفوائد متأخرة للقروض والقروض المعاد اقراضها وسندات الدين والديون الخارجية الخاصة. يتم تسجيل أصل الصكوك والعائد ورسومها هنا أيضًا.



# وحدات DMFAS 6

Debt Service Operation

Principal And Interest | Commissions | Penalty Interest

Instrument

ID: 50537000 Serie No: 2 Serie Currency: UCP

Maturities

Date	P/I	Amount in Tranche / Series Currency	Payment Order	Status
31.12.2006	P	8,085,819.460		PAID
31.12.2006	I	2,451,887.690		PAID
30.01.2007	P	404,290.970		PAID
30.01.2007	I	51,313.850		PAID
28.02.2007	P	404,290.970		PAID
28.02.2007	I	50,640.040		PAID
30.03.2007	P	404,290.970		PAID
30.03.2007	I	49,966.220		PAID

Record

Payment | Rescheduling | Forgiveness

Arrears | Buybacks | Swap | Stripped

عمليات خدمة الدين المجدولة والفعلية مع وضعها

منطقة لاختيار أنواع عمليات خدمة الدين

# وحدات 6 DMFAS



يمكن أيضًا استخدام أداة العمليات التلقائية لتسجيل مدفوعات خدمة الدين أو المتأخرات لمجموعة من القروض أو سندات الدين. ومع ذلك ، يجب استخدامه في حالات محددة وليس بالطريقة المعتادة لتسجيل عمليات خدمة الديون في نظام إدارة الديون والتحليل المالي.

# وحدات 6 DMFAS

## التقارير Reports

بواسطة 6 DMFAS من الممكن إصدار مجموعة واسعة من التقارير القياسية والمتخصصة:



### Reports

Standard Reports

User-defined Reports

Data Validation

Statistical Bulletins

World Bank Reports

**التقارير القياسية:** هي تقارير محددة مسبقًا يتم تسليمها مع النظام. هذه تقارير تشغيلية وتحليلية وإدارية تم إنشاؤها من قبل الفريق المركزي لبرنامج DMFAS.

**تقارير من تحديد المستخدم:** هي تقارير يتم إنشاؤها بواسطة مستخدم DMFAS في البلدان. يمكن أن تكون هذه التقارير تشغيلية وكذلك تحليلية وإدارية.



# وحدات 6 DMFAS (يتبع)

التحقق من صحة البيانات: هي تقارير محددة مسبقًا تتيح لك التحقق من دقة وتناسق البيانات المسجلة في قاعدة البيانات.



## Reports

Standard Reports

User-defined Reports

Data Validation

Statistical Bulletins

World Bank Reports

النشرات الإحصائية للبيانات: تحتوي على مكتبة من التقارير التي يمكن تضمينها في نشرة إحصائية للديون.

تقارير البنك الدولي: تتيح إمكانية إنشاء النموذجين 1 و 2 من نظام الإبلاغ عن المدينين.

# وحدات 6 DMFAS (يتبع)

## التحليل Analysis

تتضمن هذه الفئة ميزات جديدة متخصصة لمديري الديون في المكاتب الوسطى وتضم:



### Analysis

Debt Ratios

Financial Indicators

Sensitivity

Debt Portfolio Analysis

Debt Sustainability Interface

Risk Model(s) Interface

**نسب الدين:** وهي مقاييس تستخدم للإشارة إلى المخاطر المحتملة المتعلقة بالديون. وهي تنقسم إلى ثلاث فئات عامة: ديون القطاع العام، وديون القطاع العام الخارجي، والدين المحلي.

# وحدات 6 DMFAS (يتبع)

## التحليل Analysis

المؤشرات المالية: وهي التدابير التحليلية الرئيسية المستخدمة لتقييم الديون، وتشمل:

عصر المنحة: الذي يقيس التيسير في القرض

متوسط الشروط: فيما يتعلق بأسعار الفائدة وأجال الاستحقاق والعمر وفترات السماح لمجموعة مختارة من القروض



### Analysis

Debt Ratios

Financial Indicators

Sensitivity

Debt Portfolio Analysis

Debt Sustainability Interface

Risk Model(s) Interface

# وحدات 6 DMFAS (يتبع)



## Analysis

Debt Ratios

Financial Indicators

Sensitivity

Debt Portfolio Analysis

Debt Sustainability Interface

Risk Model(s) Interface

**تحليل الحساسية:** يستخدم لعمل توقعات حول كيفية تأثير التغيرات في أسعار الفائدة و/أو أسعار الصرف على خدمة ديون الدولة، وبالتالي على قدرتها على تحمل ديونها.

**تحليل محفظة الديون:** يهدف إلى تحسين قدرة مديري الدين العام على تقييم هيكل وديناميكيات ومخاطر محافظ الديون السيادية.

**واجهة استدامة الديون:** تعمل كواجهة بين DMFAS وتطبيق DSM+ التابع للبنك الدولي، والذي لم يعد مدعومًا من قبل DMFAS.

# وحدات 6 DMFAS (يتبع)



## Analysis

Debt Ratios

Financial Indicators

Sensitivity

Debt Portfolio Analysis

Debt Sustainability Interface

Risk Model(s) Interface

واجهة نموذج المخاطر: يتم استخدامها في نظام نموذج المخاطر. هي نسخة مخصصة من أداة استراتيجية الدين متوسطة الأجل MTDS وهي إطار عمل تم تطويره بشكل مشترك من قبل البنك الدولي وصندوق النقد الدولي. وهو يشتمل على نهج "أفضل الممارسات" الذي يوجه مكاتب إدارة الديون في تصميم بالاضافة الى كونها أداة تحليلية.

شكراً



Central Bank of Egypt

July 4<sup>th</sup>, 2021

GPS Coordinates

ID	Full Name الاسم الكامل	Gender الجنس	Head of Household رئيس الأسرة	Age Group الفئة العمرية	Organization/Company المنظمة/شركة	Title الترتيب	Contact Information		Signature التوقيع
							Email البريد الإلكتروني	Phone Number رقم الهاتف	
1	HUSSEIN Ali Mohammed ALquaiti	<input checked="" type="checkbox"/> Male <input type="checkbox"/> Female	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> (15-19) <input type="checkbox"/> (20-24) <input checked="" type="checkbox"/> (25-29) <input type="checkbox"/> (30+) <input type="checkbox"/> DNA	Central Bank of Yemen	Deputy Governor	hussein.alquaiti@cb-yemen.com	00967 384 784	
2	Taissir Abdullah Mohammed Sallam	<input checked="" type="checkbox"/> Male <input type="checkbox"/> Female	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> (15-19) <input type="checkbox"/> (20-24) <input checked="" type="checkbox"/> (25-29) <input type="checkbox"/> (30+) <input type="checkbox"/> DNA	Central Bank of Yemen	Head of correspondent Banks Section	taissir.sallam@cb-yemen.com	00967 - 736 5856 73	
3	Reem Abdallah Salem Abdallah	<input type="checkbox"/> Male <input checked="" type="checkbox"/> Female	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	<input type="checkbox"/> (15-19) <input type="checkbox"/> (20-24) <input checked="" type="checkbox"/> (25-29) <input type="checkbox"/> (30+) <input type="checkbox"/> DNA	Central Bank of Yemen	Head of International Organization	reem.abdallah@cb-yemen.com	00967 733 318 541	
4	Daie SaieH Al Omwi	<input type="checkbox"/> Male <input checked="" type="checkbox"/> Female	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	<input type="checkbox"/> (15-19) <input type="checkbox"/> (20-24) <input checked="" type="checkbox"/> (25-29) <input type="checkbox"/> (30+) <input type="checkbox"/> DNA	CDY	G.M of Loss	daiesah.alomwi@cb-yemen.com	733811123	
5	Dasha Salet	<input type="checkbox"/> Male <input checked="" type="checkbox"/> Female	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	<input type="checkbox"/> (15-19) <input type="checkbox"/> (20-24) <input checked="" type="checkbox"/> (25-29) <input type="checkbox"/> (30+) <input type="checkbox"/> DNA					
6		<input type="checkbox"/> Male <input checked="" type="checkbox"/> Female	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	<input type="checkbox"/> (15-19) <input type="checkbox"/> (20-24) <input checked="" type="checkbox"/> (25-29) <input type="checkbox"/> (30+) <input type="checkbox"/> DNA					
7		<input type="checkbox"/> Male <input checked="" type="checkbox"/> Female	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	<input type="checkbox"/> (15-19) <input type="checkbox"/> (20-24) <input checked="" type="checkbox"/> (25-29) <input type="checkbox"/> (30+) <input type="checkbox"/> DNA					
8		<input type="checkbox"/> Male <input checked="" type="checkbox"/> Female	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	<input type="checkbox"/> (15-19) <input type="checkbox"/> (20-24) <input checked="" type="checkbox"/> (25-29) <input type="checkbox"/> (30+) <input type="checkbox"/> DNA					
9		<input type="checkbox"/> Male <input checked="" type="checkbox"/> Female	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	<input type="checkbox"/> (15-19) <input type="checkbox"/> (20-24) <input checked="" type="checkbox"/> (25-29) <input type="checkbox"/> (30+) <input type="checkbox"/> DNA					
10	Verified Attendance		Total:		Male:	Female:	Total Staff:	Male Headed:	Female Headed:

I hereby confirm that this database is accurate and complete

Data Collector: Signature:

Dasha Salet



Economic Recovery & Livelihoods Program | IERLPP |

Location: Central Bank of Egypt

Title: July 4th, 2021

Day / Date: July 4th, 2021

GPS Coordinates

No	Full Name الاسم الكامل	Gender الجنس	Head of Household رأس الأسرة	Age Group الفئة العمرية	Organizational Company المنظمة	Title المسمى	Contact Information		Signature التوقيع
							Email البريد الإلكتروني	Phone Number رقم الهاتف	
1	HUSSEIN Ali Mohammed ALQuaiti	<input checked="" type="checkbox"/> Male <input type="checkbox"/> Female	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> (15-19) <input type="checkbox"/> (20-24) <input checked="" type="checkbox"/> (25-29) <input type="checkbox"/> (30+) <input type="checkbox"/> N/A	Central Bank of Yemen	Deputy Governor	Muhammad alquaiti@cbj-ye.com	00967 384 78 4	
2	Taisseer Abdulatiz Mohammed Sallam	<input type="checkbox"/> Male <input checked="" type="checkbox"/> Female	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	<input type="checkbox"/> (15-19) <input type="checkbox"/> (20-24) <input checked="" type="checkbox"/> (25-29) <input type="checkbox"/> (30+) <input type="checkbox"/> N/A	Central Bank of Yemen	Head of correspondent Banks Section	tais@cbj-ye.com	00967 736 58 56 73	
3	Reem Abdullak Salam Abdellak	<input type="checkbox"/> Male <input checked="" type="checkbox"/> Female	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	<input type="checkbox"/> (15-19) <input type="checkbox"/> (20-24) <input checked="" type="checkbox"/> (25-29) <input type="checkbox"/> (30+) <input type="checkbox"/> N/A	Central Bank of Yemen	Head of International Organization	reem.abdullak@cbj-ye.com	00967 733 318 541	
4	Dia SaieH Al Omari	<input type="checkbox"/> Male <input checked="" type="checkbox"/> Female	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	<input type="checkbox"/> (15-19) <input type="checkbox"/> (20-24) <input checked="" type="checkbox"/> (25-29) <input type="checkbox"/> (30+) <input type="checkbox"/> N/A	CDY	G.M of Loss	djalal@mri@cdy-ye.com	733811123	
5	Dasha Suleh	<input type="checkbox"/> Male <input checked="" type="checkbox"/> Female	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	<input type="checkbox"/> (15-19) <input type="checkbox"/> (20-24) <input checked="" type="checkbox"/> (25-29) <input type="checkbox"/> (30+) <input type="checkbox"/> N/A					
6		<input type="checkbox"/> Male <input checked="" type="checkbox"/> Female	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	<input type="checkbox"/> (15-19) <input type="checkbox"/> (20-24) <input checked="" type="checkbox"/> (25-29) <input type="checkbox"/> (30+) <input type="checkbox"/> N/A					
7		<input type="checkbox"/> Male <input checked="" type="checkbox"/> Female	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	<input type="checkbox"/> (15-19) <input type="checkbox"/> (20-24) <input checked="" type="checkbox"/> (25-29) <input type="checkbox"/> (30+) <input type="checkbox"/> N/A					
8		<input type="checkbox"/> Male <input checked="" type="checkbox"/> Female	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	<input type="checkbox"/> (15-19) <input type="checkbox"/> (20-24) <input checked="" type="checkbox"/> (25-29) <input type="checkbox"/> (30+) <input type="checkbox"/> N/A					
9		<input type="checkbox"/> Male <input checked="" type="checkbox"/> Female	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	<input type="checkbox"/> (15-19) <input type="checkbox"/> (20-24) <input checked="" type="checkbox"/> (25-29) <input type="checkbox"/> (30+) <input type="checkbox"/> N/A					
10		<input type="checkbox"/> Male <input checked="" type="checkbox"/> Female	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	<input type="checkbox"/> (15-19) <input type="checkbox"/> (20-24) <input checked="" type="checkbox"/> (25-29) <input type="checkbox"/> (30+) <input type="checkbox"/> N/A					
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No	Full Name الاسم الكامل	Gender الجنس	Head of Household رأس الأسرة	Age Group الفئة العمرية	Organization/Company المنظمة/الشركة	Title المسمى	Contact Information		Signature التوقيع		
							Email البريد الإلكتروني	Phone Number رقم الهاتف			
1	Karim Mohamed Taki Ibrahim	<input checked="" type="checkbox"/> Male <input type="checkbox"/> Female	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	[15-19] [20-24] [25-29] [30+] N/A	Repiniv	Senior Sales	Karim Taki@LSEG.com	01000201044			
2	Taisseer Abdulaziz Nona- imed Salsan	<input type="checkbox"/> Male <input checked="" type="checkbox"/> Female	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	[15-19] [20-24] [25-29] [30+] N/A	Central Bank of Yemen	Head of Correspondent Banks Section	taisseer-salsan@cb-yemen.com	00967-736525673			
3	Hussein Ali Mohamed Alqaithi	<input checked="" type="checkbox"/> Male <input type="checkbox"/> Female	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	[15-19] [20-24] [25-29] [30+] N/A	Central Bank of Yemen	Deputy Governor	hussein.alqaithi@cb-yemen.com	00967 777 384784			
4	Reem Abdullah Saleh Abdullah Daie Saleh Nasher	<input checked="" type="checkbox"/> Male <input type="checkbox"/> Female	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	[15-19] [20-24] [25-29] [30+] N/A	Central Bank of Yemen	Head of International organizations	reem.abdullah@cb-yemen.com	00967-733318541			
5		<input type="checkbox"/> Male <input checked="" type="checkbox"/> Female	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	[15-19] [20-24] [25-29] [30+] N/A			dal.khanna@cb-yemen.com	0096773381123			
6		<input type="checkbox"/> Male <input checked="" type="checkbox"/> Female	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	[15-19] [20-24] [25-29] [30+] N/A							
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9		<input type="checkbox"/> Male <input checked="" type="checkbox"/> Female	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	[15-19] [20-24] [25-29] [30+] N/A							
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Location: Daily Sign-in Sheet

Title:   
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 3th July 2021

DUSTI Hotel Working Room Training & DHFAs  
ERLP for Reserves Handover  
4th July 2021

#	Full Name الاسم الكامل	Gender الجنس	Head of Household رأس الأسرة	Age Group الفئة العمرية	Organization/Company المنظمة/الشركة	Title المسمى	Contact Information		Signature التوقيع
							Email البريد الإلكتروني	Phone Number رقم الهاتف	
1	Amr Haged Osman	<input checked="" type="checkbox"/> Male <input type="checkbox"/> Female	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	[15-19] [20-24] [25-29] [30-34] [35-39] [40-44] [45-49] [50-54] [55-59] [60-64] [65-69] [70-74] [75-79] [80-84] [85-89] [90-94] [95-99] DNA	BDC	Head of Trading and Markets	amr.haged@bdc.eg	0100048740	
2	Karim Zaki	<input checked="" type="checkbox"/> Male <input type="checkbox"/> Female	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	[15-19] [20-24] [25-29] [30-34] [35-39] [40-44] [45-49] [50-54] [55-59] [60-64] [65-69] [70-74] [75-79] [80-84] [85-89] [90-94] [95-99] DNA	Refiniviv	Prop sales	Karim.Zaki@LSEC.com	01000201044	
3	Dania ElDisha	<input checked="" type="checkbox"/> Male <input type="checkbox"/> Female	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	[15-19] [20-24] [25-29] [30-34] [35-39] [40-44] [45-49] [50-54] [55-59] [60-64] [65-69] [70-74] [75-79] [80-84] [85-89] [90-94] [95-99] DNA	Pragma Corp	Consultant	doslae@prgma.com	+96170616783	
4	Reem Abdullah Salem Abdullah	<input checked="" type="checkbox"/> Male <input type="checkbox"/> Female	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	[15-19] [20-24] [25-29] [30-34] [35-39] [40-44] [45-49] [50-54] [55-59] [60-64] [65-69] [70-74] [75-79] [80-84] [85-89] [90-94] [95-99] DNA	CBY	Head of organization	reem.abdullah@cbj-ye.com	733 318 541	
5	Taissier Abdalaziz Mohammed Saleem Daie Saleh Nasher	<input checked="" type="checkbox"/> Male <input type="checkbox"/> Female	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	[15-19] [20-24] [25-29] [30-34] [35-39] [40-44] [45-49] [50-54] [55-59] [60-64] [65-69] [70-74] [75-79] [80-84] [85-89] [90-94] [95-99] DNA	CBY	Head of Correspondent Events	taissier.saleem@cbj-ye.com	00967-36585673	
6	Mussein Ahi Mohammed Almuaiti	<input checked="" type="checkbox"/> Male <input type="checkbox"/> Female	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	[15-19] [20-24] [25-29] [30-34] [35-39] [40-44] [45-49] [50-54] [55-59] [60-64] [65-69] [70-74] [75-79] [80-84] [85-89] [90-94] [95-99] DNA	CBY	Deputy Governor	mussein.almuaiti@cbj-ye.com	+967 777 384	
7		<input type="checkbox"/> Male <input type="checkbox"/> Female	<input type="checkbox"/> Yes <input type="checkbox"/> No	[15-19] [20-24] [25-29] [30-34] [35-39] [40-44] [45-49] [50-54] [55-59] [60-64] [65-69] [70-74] [75-79] [80-84] [85-89] [90-94] [95-99] DNA					
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Daily Sign-in Sheet

Location: DUSTY Hotel

Title: July 8th, 2021

Day / Date: July 8th, 2021

GPS Coordinates

ID	Full Name الاسم الكامل	Gender الجنس	Head of Household رأس الأسرة	Age Group الفئة العمرية	Organization/Company المنظمة/شركة العمل	Title المنصب	Contact Details		Signature التوقيع
							Email البريد الإلكتروني	Phone Number رقم الهاتف	
1	Reem Abdallah Salem Abdallah	<input type="checkbox"/> Male / <input checked="" type="checkbox"/> Female	<input type="checkbox"/> Yes / <input checked="" type="checkbox"/> No	(15-19) (20-24) (25-29) (30+) N/A	CBY	Head of International organization	reem.abdallah@cb-y-ye.com	+967 783 318541	
2	Hussein Al'i Mohammed Alqaiti	<input checked="" type="checkbox"/> Male / <input type="checkbox"/> Female	<input type="checkbox"/> Yes / <input checked="" type="checkbox"/> No	(15-19) (20-24) (25-29) (30+) N/A	CBY	Deputy Governor	hussein.alqaiti@cb-y-ye.com	+967 777 384 784	
3	Taasseer Abdulaziz Mohamed Saleem	<input type="checkbox"/> Male / <input checked="" type="checkbox"/> Female	<input type="checkbox"/> Yes / <input checked="" type="checkbox"/> No	(15-19) (20-24) (25-29) (30+) N/A	CBY	Head of Correspondent Bank Section	taasseer.saleem@cb-y-ye.com	00967 - 736 585 673	
4	Doiesaleh Nasher	<input type="checkbox"/> Male / <input checked="" type="checkbox"/> Female	<input type="checkbox"/> Yes / <input checked="" type="checkbox"/> No	(15-19) (20-24) (25-29) (30+) N/A	CBY	G.M of Loans	dai.alomari@cb-y-ye.com	733 811 123	
5	Garnin Benjamin	<input type="checkbox"/> Male / <input checked="" type="checkbox"/> Female	<input type="checkbox"/> Yes / <input checked="" type="checkbox"/> No	(15-19) (20-24) (25-29) (30+) N/A	Pragma Corp	Portfolio Manager	garnin.benjamin@primg.com	+20 12 8825 2610	
6	Dania El Osta	<input checked="" type="checkbox"/> Male / <input type="checkbox"/> Female	<input type="checkbox"/> Yes / <input checked="" type="checkbox"/> No	(15-19) (20-24) (25-29) (30+) N/A	Pragma Corp	Consultant	dostoe@primg.com	+961 70616783	
7		<input type="checkbox"/> Male / <input checked="" type="checkbox"/> Female	<input type="checkbox"/> Yes / <input checked="" type="checkbox"/> No	(15-19) (20-24) (25-29) (30+) N/A					
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Date Collected: July 8th, 2021

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# ECONOMIC RECOVERY AND LIVELIHOODS PROGRAM (ERLP)— YEMEN

## BUSINESS REQUIREMENTS FOR ACH & RTGS SOLUTIONS FOR THE CENTRAL BANK OF YEMEN (CBY)

### ANNEX 7

June 2021

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# I INTRODUCTION

This deliverable covers the following ERLP Work Plan item: “A mini-report detailing the development of the business and technical requirements for automated real-time gross settlement (RTGS) and small-value net settlement (Automated Clearing House/ACS) tender documentation comprehensively developed.”

The document defines the significant requirements for implementing an Automated Transfer System (ATS) as the major foundational component of the National Payments System in Yemen.

ATS constitutes a single platform for processing both large-value/time-critical payments and retail payments. This system includes two key components:

1. **Real-Time Gross Settlement System (RTGS):** RTGS allows for instantaneous funds transfer for large interbank transactions and is a vital feature of any modern payments system.
2. **Automated Clearing House (ACH):** ACH provides netting and clearing facilities for the full range of high volume, low value (retail) electronic instruments, including direct debits/credits, electronic cheque records, and bulk transfers (e.g., for salary payments).

In Yemen, both RTGS and ACH will be tightly integrated within a single Automated Transfer System (ATS) to ensure the seamless clearing and settlement of all domestic interbank obligations on a same-day basis. The system will interface seamlessly with existing core banking systems to provide fully automated Straight-Through Processing (STP) through electronic transfers. These include the core accounting and banking system, planned Comprehensive Reserve Management System (CRMS), FX system, money market system, and the MOF’s Department of Treasury system.

This document presents the business requirements for both the RTGS and ACH systems.

## 2 RTGS

RTGS is a proven and reliable solution for processing and settling transactions on a real-time, gross basis. The system must be sufficiently robust to process a required volume of transactions within an appropriate timeframe while exhibiting functional flexibility. It must support various payment streams, including net settlement positions from various netting schemes and securities and foreign exchange settlements. Moreover, the system design must allow for seamless integration into CBY’s network and security infrastructure, and other CBY software applications.

All RTGS transfers will clear and settle simultaneously according to internationally accepted RTGS processing standards and best practices. Participants will hold settlement accounts with the CBY. Transfers will be settled only if the requesting counterparty has sufficient funds in its settlement account (defined by a ‘net debit cap’ – a fully collateralized credit line within the settlement account).

### 2.1 TRANSACTION TYPES

The RTGS system is expected to support the following types of transactions:

### 2.1.1 Interbank Transfers

Interbank transfers are credit push transactions initiated by the sending counterparty (usually a financial institution with a settlement account in the CBY). Interbank transfers simultaneously debit the sending counterparty's account and credit the settlement account of the receiving counterparty. Interbank funds transfers can affect or support the settlement of financial instruments, such as money markets, capital markets, and foreign exchange. At a minimum, requests for interbank funds transfers should include the following information:

1. Date
2. Time
3. Amount
4. Currency
5. Sending Counterparty Name
6. Receiving Counterparty Name
7. Purpose (e.g., clean placement, collateralized placement, FX, interest payment, etc.)
8. Rate
9. Collateral
10. Narration
11. Sending Counterparty Reference
12. Unique Transfer ID
13. Transaction Status
14. Data Entry
15. Name of Originator (Inputter)
16. Name of Approving Officer

### 2.1.2 Third-Party Transfer

Third-party transfers function like interbank funds transfers and will be used to execute transfer orders from participating institutions. In addition to the requirements listed above for interbank transfers, third party transfers must also include the following information:

1. Sending Customer Name
2. Sending Customer Address
3. Sending Customer Reference
4. Receiving Customer Name
5. Receiving Customer Address
6. Receiving Customer Account Number

### 2.1.3 Debit Funds Transfer

Debit funds transfer is a credit pull service for the exclusive use of the CBY or other approved clearing infrastructure. As a sending counterparty, the CBY will debit the account of the receiving counterparty. The service will allow entry and approval of multiple transactions for one or more counterparties. At a minimum, input fields should include the following information:

1. Date

2. Time
3. Amount
4. Sending Counterparty Name
5. Receiving Counterparty Name
6. Purpose (e.g., fee, penalties, remittances, etc.)
7. Description
8. Transaction status
9. Name of Approving Officer

Debit funds transfers shall include a provision for automatically uploading data into the fields mentioned above from banking applications in addition to manual data entry. The system must send confirmation of successful settlement to both sending and receiving counterparties.

## **2.2 NET SETTLEMENT SCHEMES-CHECKS/ACH, E-PAYMENT, SWITCHING, ETC.**

The RTGS must be capable of supporting the settlement of net settlement obligations arising from various netting schemes (even if they are not yet implemented in Yemen), including checks/ACH, electronic switches, and Central Securities Clearing Systems (CSCS) net positions. The system shall be capable of settling various net settlement sessions during RTGS regular operating hours.

## **2.3 DELIVERY VERSUS PAYMENT FOR SECURITIES TRADE SETTLEMENT**

The application must integrate seamlessly with various securities depository providers, whether CBY or CSCS, and be capable of exchanging value for securities simultaneously on a continuous, transaction-by-transaction basis.

## **2.4 PAYMENTS VERSUS PAYMENTS FOR FOREIGN EXCHANGE TRADE SETTLEMENT**

The application must be capable of seamlessly exchanging Yemeni Rials for other currencies simultaneously in the Yemeni Rial and foreign exchange accounts of transacting parties on a real-time gross basis.

## **2.5 MULTIPLE CURRENCY**

The system is required to support the settlement of transactions in Yemeni Rial and major international currencies.

## **2.6 QUEUING MECHANISMS**

Insufficient funds transfers will be queued by the RTGS system, which is expected to manage the queue on a priority, preemptive, or reordered basis. Participating banks should supervise queuing for their transactions only. The CBY should oversee transactions from participating banks.

### **2.6.1 Priority + FIFO**

The system will have a prioritization scale to decide which participants to assign a specific priority to each transfer request. This option must be in addition to the “first-in, first-out” (FIFO) management principle.



## 2.6.2 Bypass FIFO/Pre-emptive Basis

The application will allow participants to request that the next executable transfer instruction in the queue be processed when an un-executable transfer instruction is queued, and the participant can bypass the FIFO principle.

## 2.6.3 Reordering

The application should provide a reordering mechanism that allows participants to change the order of items in their respective queues. The CBY should also be able to reorder transactions in any queue.

## 2.6.4 Queue Cancellation

The application is expected to afford participants the option of canceling their respective queued transactions. Authorized CBY staff should be able to cancel or reorder individual participating institution queues upon request from a participant or as needed. In addition, the CBY shall have the option to cancel all queued transactions.

## 2.7 GRIDLOCK RESOLUTION

Gridlock refers to instances where unsettled payment transfers block a substantial number of settlements of other participating banks due to insufficient funds in the paying bank's settlement account. The system should be able to detect such occurrences and offer the best algorithm possible for resolving the issue.

## 2.8 VALIDATION

The system should be able to validate all input data. Validation must include system checks for acceptable formats and values. Related fields must be checked before transactions are processed. Errors must be clearly identified to allow participants to promptly correct data input errors.

## 2.9 NOTIFICATIONS

The system must notify each sender when sending their messages that the request is provisional until it is accepted and settled. Such notifications will be sent via the RTGS network to the sender.

## 2.10 FUND RETURN REQUESTS

The system should support fund return requests.

## 2.11 ACCOUNT NUMBERS

Account number data fields should support a maximum length of 34 alphanumeric characters.

## 2.12 CUT-OFF TIME MANAGEMENT

Predefined start of business and cut-off times are to be automatically controlled by the system, but CBY can override the system to extend cut-off times, as needed.

It is expected that cut-off times for third-party payments versus inter-bank settlements will vary to allow for effective position management between banks.

## **2.13 POSITION AND COLLATERAL MANAGEMENT**

### **2.13.1 Intraday Facility**

RTGS must support an intra-day liquidity facility for participants against collaterals. Collaterals for the facility will be topped with a margin. The facility shall be liquidated on or before the close of RTGS operating hours, and collaterals shall be returned to corresponding participants. The intra-day facility must include an option for charging a fee for this service. The intra-day facility service will be initiated and approved by the participating bank, while the CBY shall have the privilege of either granting or refusing applications.

A repurchase facility service for end-of-day account balancing shall also be provided.

## **2.14 BALANCE SWEEPING**

The system shall allow for the automatic sweeping of balances between participating institution RTGS settlement accounts and their existing CBY accounts. It will also have the option of interfacing directly with the CBY's core banking application and will update in real-time to mirror participants' settlement accounts. RTGS should be parameterized to allow for operational flexibility.

### **2.14.1 Value Dates**

All transactions should be settled on a specified date.

The system must accept current and future value-dated transfer instructions for processing. Transfer instructions should be transmitted to the CBY settlement engine when the value date arrives.

For current value-dated transfer instructions not settled by the end of the day, the system must provide an option either to cancel the instruction or to carry them over to the next value date.

## **2.15 OPERATIONAL REQUIREMENTS**

### **2.15.1 Multiple User Sign-On**

The application should support the simultaneous use of the system by multiple data entry and approving officers at each participating bank.

### **2.15.2 User-Friendly**

The application must be menu-driven, and navigation shall be straightforward and instantaneous. On-screen help functions should be available.

### **2.15.3 Language**

All inquiries, reports, and screens shall appear in both English and Arabic.

#### **2.15.4 Approval/Authentication**

The system shall operate a “maker/checker” philosophy for all main functions. For payment initiation, multiple levels of transaction verification and authorization must be supported and be configurable for each participant.

#### **2.15.5 Billing**

Billing is expected to include transaction fees (e.g., annual maintenance fees, as well as operating hours extension request fees and penalties). The billing service will also allow the CBY to charge fees on a flat, tiered, or percentage basis.

#### **2.15.6 Reporting**

The system must provide both standard and user-tailored reports. System users should have the option of either querying the RTGS database to produce a standard or customized report based on their specific needs. The RTGS database must be sufficiently robust to enable users to define specific fields and presentation formats.

#### **2.15.7 Inquiries**

The user must be able to make inquiries quickly and easily. Inquiries should cover a wide range of data and transaction types. The application should accommodate user-defined inquiries. User inquiries should not be limited and should include access to online account statements, balance inquiries, etc.

#### **2.15.8 Transaction Reports**

Transaction reports should be available in both standard and user-defined formats.

#### **2.15.9 Audit Trail**

The system should contain a log of all inquiries and reports to facilitate future audits.

#### **2.15.10 Reconciliation**

Each participant should receive an end-of-day report in printable and electronic form, containing details of all transactions conducted. In addition, the system should have the capacity to cross-check all transactions for completeness before the end-of-day processing.

#### **2.15.11 Reporting Database**

The system must be able to maintain a statistical database with query and reporting functions.

#### **2.15.12 Archiving**

The system must provide comprehensive archiving and retrieval functions, allowing for online retrieval of historical transactions for a minimum of 13 months, and unlimited offline storage through permanent media (preferably secured ‘write-once’ media).

## 3 ACH

The ACH system would provide the following services:

1. Direct Credit (DC) and Direct Debit (DD) as new types of interbank retail payments (processed via low-value bulk payment files)
2. 24/7 Instant Fund Transfer (IFT) must be implemented to provide the real-time single payment service in LVPS
3. Flexible and comprehensive functions for banks to send and receive payments covering STP, web-based input, and file import/export
4. Risk management functions, including debit cap limits enabling the CBY to implement procedures for guaranteeing the timely net settlement of ACH payments
5. Clearing sessions affecting multiple settlements via the RTGS system within the same day
6. Adoption of the latest ISO 20022 financial messaging standards and IBAN formatting
7. Dynamic reporting and system monitoring functions
8. A wide range of business and system parameters to be set up and maintained by the CBY for ACH system configuration and business rules definition
9. Support non-bank corporates to connect as “indirect participants” (i.e., major corporates may send payment files directly to ACH, and the corporate’s sponsoring bank will arrange the settlement for their payments)
10. Capacity to support interbank clearing of e-money and e-commerce transactions
11. Other technical requirements, including PKI digital signatures, high availability, open system standards, DR systems, etc.

### 3.1 BULK PAYMENTS

The ACH system must be a highly efficient system capable of processing high-volume, low-value, recurrent retail payments, which include various types of bulk payments, as described below.

### 3.2 DIRECT CREDITS

Direct Credit (DC) payments are low-value interbank credit transfers sent by an originating participant to credit payments to receiving participant customers. DC payments are usually recurrent.

DC payments are sent in batches by an originating participant to the ACH system. Each batch contains multiple credit transfers to one or more customers of receiving participants. DC payment batches are processed and cleared based on the ACH clearing session schedule and not on a real-time basis.

The ACH system must support all common types of direct credit payment transactions. These include, but are not limited to:

- Payroll
- Dividends
- Social Security Pensions
- Social Benefits for Children
- Standing order credit instructions
- Initial Public Offer (IPO) subscriptions and return of over-subscribed payment

The system must also allow the CBY to add new transaction types to the ACH system in the future without the need to request software changes.

### **3.3 DIRECT DEBITS**

Direct Debit (DD) payments are low-value interbank debit payments sent by an originating participant to collect payment from customers of the receiving participant. DD payments are usually recurrent in nature.

DD payments shall be sent in batches by an originating participant to the ACH system. Each batch contains multiple direct debit payments to one or more customers of receiving participants. DD payment batches are processed and cleared based on the ACH clearing session schedule and not on a real-time basis.

Each DD payment must be supported by a Direct Debit Mandate established between the payer customer of the receiving participant and the beneficiary customer of the originating participant. The Direct Debit Mandate must define the maximum limit, the allowed time, the identification of the beneficiary customer, and bank information authorized by the payer customer.

The ACH system must support all common types of direct debit payment transactions. These include, but are not limited to:

1. Utility bill direct debits
2. Insurance premiums
3. Repayment of loan installments
4. Repayment of mortgage loans
5. Repayment of credit card bills

The new ACH system should be capable of easily supporting other types of transactions in the future, as needed.

### **3.4 INSTANT FUNDS TRANSFERS**

Instant Funds Transfer (IFT) payments are low-value interbank credit transfers sent by an originating participant on behalf of the participant's customers, requesting immediate credit to the beneficiaries of each IFT payment.

IFT payments will be sent on a single payment basis by an originating participant to the ACH system. The ACH system shall process each IFT payment in real-time by switching it to the receiving participant. The receiving participant must perform Straight-Through Processing (STP) of the credit transfer to the beneficiary immediately and send back a response message to the ACH system within a guaranteed time, e.g., 30 seconds. The ACH system then sends the response to the originating participant within a similar time limit.

The ACH system must include a range of services used by each participant for preparing, sending, receiving, and managing payments belonging to the participant.

## **3.5 MAJOR FUNCTIONS**

The ACH Participant System for each participant must provide the primary functions enumerated below.

### **3.5.1 Payment Input**

Payment input provides functions for a direct participant to prepare, review, repair, and authorize interbank DC, DD, or IFT payments to other participants via the CBY's ACH system.

### **3.5.2 Payment Input APIs**

The proposed solution should include a library of APIs or a list of web services a participant can adapt to implement Straight-Through Processing (STP) of all ACH payments for their customers, as captured via Internet banking, mobile banking, or participants' bank branches.

### **3.5.3 Payment Management**

Payment management includes various functions such as payment status inquiry, outbound payment cancellation, inbound payment return/refusal, and refunds to counterpart participants.

### **3.5.4 Position Monitoring**

Position monitoring provides functions for a participant to perform real-time monitoring of a participant's position account. The position account for each participant will continuously accumulate the total debit and credit positions of the participant.

### **3.5.5 Participant-Owned Administration**

Participant-owned administration allows each participant to maintain bank-level parameters and their user rights in compliance with the system's security policies.

### **3.5.6 File Processor**

File processor manages all DC/DD payment submission files from originating participants and all DC/DD payment transmission files of receiving participants.

### **3.5.7 Clearing Engine**

The clearing engine clears all ACH payments, including DC, DD, and IFT payments, by sorting the receiving participant of each payment and calculating the net clearing position of originating and receiving participants.

### **3.5.8 Risk Management**

Risk management performs all necessary risk management monitoring, such as Debit Cap Limits, before clearing payments for receiving participants.

### 3.5.9 E-Mandate Management

The ACH system must provide an E-Mandate database, which allows paying and beneficiary banks to input data for the direct debit authority granted by the payer to the beneficiary. The E-Mandate database will maintain all available direct debit authority information.

### 3.5.10 IFT Switching

IFT switching processes IFT payments from originating participants by performing real-time validation and routing to the receiving participant, thereby enabling immediate payment to the beneficiary for instant funds transfer.

### 3.5.11 Settlement Interface

Settlement interface settles ACH payments by preparing a net settlement file of all DC, DD, and IFT payments which have successfully cleared during an ACH clearing session. This service should implement a system interface for sending the net settlement file from the ACH system to the CBY RTGS system and receiving settlement results from the RTGS system.

### 3.5.12 Reports & Billing

Reports and billing functions generate all system and billing reports required by participants and the system operator, i.e., the CBY. This service should include daily clearing reports and statement files for participants to perform reconciliation. The service should be sufficiently flexible to provide online query and ad hoc reports with established output formats for data/report files. The billing function should calculate daily transaction fees and other charges based on CBY policies and comprehensive, user-maintained fee parameters.

### 3.5.13 System Administration

System administration provides a comprehensive range of configuration tables. These are maintained by the CBY system administrator (using a graphical user interface) to set user profiles and establish business rules and system parameters. This service also allows the CBY to monitor participant connectivity, interface status, and critical operational events using system monitoring functions such as dashboards, supervisory consoles, and other means in Arabic and English.

### 3.5.14 Dispute Management

Dispute management enables participants to initiate disputes for any erroneous payments processed/settled through the ACH system. This service should provide comprehensive case management functions that allow initiating counterparty participants to review all related transactions and respond on time according to CBY dispute rules and regulations. Supported dispute resolution methods include refund payments.

### 3.5.15 Security & Fraud Detection

Security and fraud detection includes all necessary functions for information system security. The ACH system shall adopt PKI security standards by requiring ACH payments to be encrypted and digitally

signed to provide authentication and non-repudiation protection. This service should also include fraud detection functions, with the capacity to detect duplicate payments and perform AML/CFT checks.

### **3.6 CLEARING SESSIONS**

Each clearing session has a submission period, reply period, and net settlement period. Originating participants send DC and DD payment batches to the ACH service during the submission period. Receiving participants receive the payment batches once the submission period ends. Receiving participants must complete checks and send a reply during the reply period. IFT payments are sent in real-time throughout the submission and reply periods. Net settlement occurs immediately after the end of the reply period to achieve a same-day settlement.

The CBY configures the start and end periods, in addition to the number of daily clearing sessions.

The ACH system should allow for multiple clearing sessions throughout the day. When the submission period of one session ends, the next clearing session should start immediately. Therefore, the ACH service will allow participants to send DC, DD, and IFT payments to the ACH system on a 24/7 basis. The ACH system must arrange multiple settlements with the RTGS system while considering the system's daily operating hours.





Central Bank of Yemen



# Quarterly Bulletin Economic and Monetary Developments

Issue No. 3 (June 2021)



Central Bank of Yemen

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## Foreword

The Central Bank of Yemen (CBY) is pleased to present the Quarterly Economic Bulletin – Issue No. 3 (June 2021). The Bulletin provides readers and researchers interested in economic and monetary developments in the Republic of Yemen insights on major developments across all sectors. It also directly enhances the financial regulatory oversight processes in alignment with Basel II and Basel III pillars.

This issue of the Bulletin reviews key developments during 2020 and the first quarter of 2021 across critical macro-financial performance and policy areas, and it discusses their implications for the Yemeni economy. The first chapter looks at global and local macroeconomic developments. The second chapter outlines recent monetary and banking sector developments. The third chapter focuses on public finances, and the fourth on external sector developments.

While the ongoing war, which began in 2015, has resulted in a prolonged contractionary phase, the Yemeni economy witnessed positive growth rates in 2018 and 2019 owing to a significant surge in oil production, before plunging into recession in 2020 under the impact of the COVID-19 crisis. The outbreak of the pandemic in early 2020 and the subsequent lockdowns and collapse in oil prices badly disrupted global markets and created severe recessionary pressures internationally. Oil price drops and the spread of the pandemic have had significant adverse effects on Yemen's economic activity, with real GDP estimated to have contracted by approx. 8.5% in 2020. In addition to these shocks, the January 2020 ban on newly printed banknotes in the region under Houthi control has limited the government's ability to pay salaries in this area and complicated monetary policy operations. This has increased the cost of financial transactions, reduced market transparency, and resulted in widening exchange rate gaps between Aden and Sanaa — to as much as 35% in some instances.

Inflationary pressures, triggered primarily by inflation on imports, remained strong. As around 90% of Yemen's basic, consumable goods come from overseas, this poses an ongoing macroeconomic management challenge. In line with the legal mandate of the CBY, as stated in Article 5 of the Central Bank Law, a concerted and sustained monetary policy response directed toward stabilizing prices and providing sufficient liquidity is needed to maintain adequate funding of public and private sector needs. The monetary control measures adopted over the past two years represent an important initial step in this direction.

Yemen's fiscal position improved during the last few years primarily as a result of an increase in oil exports, although these remain far below pre-war levels. Expenditure rationalization and fiscal deficit financing, however, are still critical issues to be addressed through close coordination among all government entities. A small portion of the fiscal deficit was financed through domestic market borrowing, while the lion's share of the fiscal deficit was funded largely through CBY monetary emissions (which were controlled overall in a manner that helped keep inflation under control). Enhanced public financial management, development of domestic debt capital markets, and financial deepening remain top reform priorities anticipated in the coming years.

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Yemen's external position has continued to deteriorate since the outset of the war, which has led to a significant weakening of the value of the local currency. The only exception to this trend was in 2019 when drawdowns from a June 2018 Saudi deposit of USD 2 billion helped stabilize the Rial exchange rate. Reviving economic activity, boosting export earnings, building up a buffer of foreign reserves, and working to limit further debt monetization are the main pillars of our macro-financial policy over the upcoming period.

The high level of commitment and quality output from Bank management and staff, which facilitated smooth and efficient functioning of the CBY, merit deep appreciation. We could not have published this Bulletin had other departments not contributed their efforts and data.

It is also acknowledged with great appreciation that the CBY, since June 2019, has received expert technical support from the USAID- and UKAID-financed Pragma advisory team in helping improve core functions and building institutional capacity through the implementation of a detailed, time-framed action plan covering core functional areas of Central Bank operations.

God bless,

Ahmed Obaid Al-Fadhli

Governor

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## Executive Summary

The Yemeni economy witnessed improvements in 2019, following the deep contraction at the start of the war in 2015. This contraction was primarily attributed to declines in the hydrocarbon sector, which makes up a significant share of domestic output. In CY 2020, the dual shocks of the COVID-19 pandemic and a steep decline in oil prices severely affected economic activity. As it will take time for the global economy to return to normal, oil prices may remain low, affecting hydrocarbon sector activities in the Republic of Yemen.

As stated in the Central Bank of Yemen (CBY) Law No. (14) of 2000, achieving price stability is the primary objective of monetary policy. In this regard, the CBY is proactively steering monetary policy in a manner designed to maintain macro-financial stability; while providing adequate financing to ensure critical public financing needs are met. It is operating in concert with relevant government institutions and with the assistance of the international community.

The principal objective of monetary policy is to attain low and stable inflation. To this end, the central bank attaches great importance to controlling the money supply. This is being achieved by constructing a solid framework for monetary targeting and moving toward adopting a comprehensive toolkit of indirect and market-based instruments for liquidity management.

Inflationary conditions worsened somewhat in 2020 after relative stability in 2019. Significant depreciation of the Rial, the lack of foreign reserve buffers at the Central Bank of Yemen, growing uncertainty, and increased dollarization all contributed to inflationary pressures. Market surveys indicate that average food-price inflation exceeded 30% in 2020. The annual inflation rate was estimated at around 25%, up from an estimated average rate of 10% in 2019. Inflation is projected to remain high at nearly 30% in 2021.

The CBY managed to design a robust monetary program for 2020 and 2021, the first since its relocation to Aden. This helped rationalize money supply parameters and limited high inflationary pressures stemming from monetary creation.

Monetary aggregates expanded at a reasonably stable clip during the last two years. Broad money grew by 15% in 2020 and 8.5% in 2019, down from a growth rate of 28.5% in 2018. Reserve/base money increased by 13.3% in 2020 and 11.5% in 2019, down from a growth rate of 28.3% in 2018. Narrow money (M1) increased by 15% and 10.6% in 2020 and 2019, respectively, compared with a 33.1% growth rate in 2018.

Currency in circulation, which accounted for more than 80% of narrow money and constitutes the main driver of M1 growth, grew by 15.1% in 2020 and 10.6% in 2019, below the 36.6% growth rate in 2018. From the perspective of the CBY balance sheet, monetary expansion was contained through a 50.6% decline in net foreign assets in 2020. With respect to domestic assets, the overall net growth rate declined to 18.8% in 2020 from 26.8% in 2019. Net claims on the government grew by 18.3% in 2020 and 19.6% in 2019, against 27.3% in 2018. This constituted the major source of overall monetary growth.

For CY 2021, the annual monetary plan projects broad and base money to grow by 18.3% and 19.1%, respectively. Within this framework, currency in circulation is projected to grow by 22.7%.

The monitoring of the annual monetary plan implementation revealed that overall, the CBY was successful in its mission of controlling the money supply growth over the first quarter of the current year. Base money rose by 1.4 percent over the first quarter of CY 2021 against a target of 4.8 percent on a quarterly basis or 19.1 percent on an annual basis. Currency issued grew over the same period by 3.1 percent compared to a target of 5.7 percent on a quarterly basis or 22.7 percent on an annual basis.

The growth of base money is mainly attributable to the net effect of the increase in credit to the government in the form of direct financing of the budget deficit, together with the decrease of foreign assets associated with the disbursement of the remaining balance of the Saudi deposit. Net credit to the government increased by 2.5% (126.5 billion YER) while foreign assets declined by 12.4% (48.2 billion YER) during the first quarter of CY 2021. Broad money (M2) grew by 0.7 percent over 2021Q1, well below the quarterly target of 4.6 percent, or 18.3 percent annually considered in the annual monetary plan. Maintaining this pace will prevent any acceleration of currency emission during the current year and help stabilize exchange rates and prices.

The deterioration of macroeconomic conditions since 2015 has severely affected the government's fiscal position. In consequence, fiscal consolidation through further expenditure rationalization and boosting of the revenue base, from both hydrocarbon and non-hydrocarbon activities, remains a key macroeconomic policy priority.

The fiscal deficit for 2020 is estimated at 782 billion Rials, an increase by 11.2% YoY that partly reflects the impact of the pandemic on overall economic activities. Investment expenditures made up a negligible share, and the majority of expenditures were utilized to cover current spending needs. Expenditure containment efforts were intensified in 2020, with the importance of such efforts further underscored by declining oil revenues due to the COVID-19 crisis.

Fiscal discipline, rationalizing public expenditures, improving efficiency, and identifying non-inflationary means to finance government expenditures are all urgently important to promote sustainable fiscal consolidation and macroeconomic stability.

The external sector has continued to deteriorate due to the fall in oil exports and significant declines in remittances. At the same time, dependence on humanitarian aid has continued to increase significantly. The balance of goods and services registered a deficit of USD 7.2 billion in 2020, down from USD 8.7 billion in 2019. The current account deficit represented 3.4% of GDP in 2020. The recent volatility in international oil prices dramatically highlights the importance of reducing Yemen's dependence on the petroleum sector.

The current account deficit continues to require significant levels of external financing. In 2019 as well as in 2020, the deficit was mainly financed through a drawdown of official foreign reserves in the amount of USD 890 million and USD 465 million, respectively. The same trend is expected for 2021, with the balance of payments gap estimated at approximately USD 1.396 billion. This trend is being driven largely by the negative impact of COVID-19 on remittances, which are estimated to have declined by more than 20% in 2020 in a further illustration of the contractionary

impact of the crisis on economic activity and employment in the region, together with rising international food and fuel prices.

The drop in remittances is particularly evident with respect to the Kingdom of Saudi Arabia, which accounts for around 60% of Yemeni diaspora remittances. This decrease has dramatically reinforced the adverse economic impact of the ongoing oil crisis, and the dampening of foreign aid inflows in 2020 due to the pandemic.

External imbalances will need to be addressed through increased export earnings and progress toward economic diversification to restore macroeconomic stability. It is also hoped that recent improvements in political economy and security stability conditions may help attract additional capital inflows as well over time.



# CHAPTER I: Current Situation and Economic Prospects

## I.1 World Economic Growth

The COVID-19 pandemic severely impacted all parts of the world with dire consequences for world economic growth and employment, especially in the services sector. In 2020, the world experienced the worst economic recession since the Great Depression of 1930s.

According to the April 2021 IMF World Economic Outlook report, global growth is projected to fall by 3.3% in 2020, largely due to the effects of the COVID-19 pandemic. Global growth is expected to rise by 6% in 2021 backed by continued policy support and vaccine rollout. However, the recovery is likely to be uneven depending on the effectiveness of vaccination programs, the extent of policy support, and the structural characteristics of economies.

Indeed, global prospects remain highly uncertain one year and half into the pandemic. New virus mutations and the mounting human toll are constant concerns. The divergent economic recoveries across countries and sectors reflect differences in the pandemic-induced disruptions they are experiencing and the extent of policy support. The global and local outlook depends not just on the outcome of the battle between the novel coronavirus and vaccines. It also hinges on how effectively economic policies deployed in these conditions of intense uncertainty can limit lasting damage from this unprecedented crisis.

The economic disruptions caused by the pandemic were reflected in a slump in demand that led to weak price growth and deflation across the globe. The average inflation rate in advanced economies increased to 1.6% in 2020 from 0.7% in 2019 and decreased slightly from 5.1% in 2019 to 4.9% in 2020 in emerging markets and developing economies. While considerable uncertainty also surrounds future inflation projections, inflation is expected to remain low due to relatively weak aggregate demand.

**Table I.1 Global Growth Forecast**

	2019	Projections	
		2020	2021
Global growth rate, %	2.8	-3.3	6
Growth rate (advanced economies), %	1.7	-4.7	5.1
Growth rate (emerging and developing economies), %	3.7	-2.2	6.7
Growth rate (Middle East and Central Asia), %	1.4	-2.9	3.7
Growth rate (Middle East and North Africa), %	0.8	-3.4	4
Growth rate (low-income developing countries), %	5.3	0	4.3

Source: IMF, *World Economic Report*, April 2021.

## I.2 Growth and Price Developments in Yemen

After contracting by an estimated 45% from 2014 to 2017, economic activity in Yemen began to improve in 2018, reflecting growth sparked primarily by the hydrocarbon industry. Real GDP increased by an estimated 2.1% in 2019, up from 0.8% in 2018, despite slowing global growth and tightening financial conditions.

Yemen's 2019 growth was accompanied by a decrease in the inflation rate from the 20% to 30% range (recorded over 2015-18), to approximately 10%. Inflation in Yemen has traditionally been the result of both imported inflation (increases in import prices due to currency depreciation) and local factors, but monetary policy adopted in 2019 has thus far been successful in controlling the money supply in a manner consistent with the pace of economic activity. In addition, the Rial exchange rate was stabilized after an exchange rate crisis in the fall of 2018 that saw the Rial depreciate to unprecedented levels. International and domestic economic conditions further eased inflation in 2019; including slow growth in international prices for non-oil commodities, and modest domestic demand that both played a role in cutting inflation by more than half.

The economic picture changed for Yemen in 2020, as it did for the rest of the world. As an oil-dependent state, Yemen experienced a significant negative impact from declining oil prices as well as the contractionary effects of the pandemic. The expectation is that its GDP contracted by 8.5% in 2020 but is projected to contract by 2% in 2021 before reverting to a positive growth rate of 1% in 2022.

Inflationary conditions worsened somewhat in 2020 after relative stability in 2019. The annual inflation rate was estimated at 20-25%, up from an estimated average rate of 10% in 2019. Significant depreciation of the Rial, the related lack of foreign reserve buffers at the Central Bank of Yemen, growing uncertainty, and increased dollarization all contributed to increasing inflationary pressures. Inflation is projected to remain high at around 25% in 2021. High inflation has direct and immediate costs for consumers since roughly 90% of Yemen's total consumable goods are imported.

## CHAPTER II: Monetary Developments

This chapter analyzes the development of base money and broad money aggregates in Yemen from 2019 through 2020 to understand the linkages between money and other macroeconomic variables. To this end, we review the CBY balance sheet in detail, the commercial and Islamic banking survey, and the overall monetary survey.

The monetary survey was developed in 2019 as part of technical assistance, capacity building, and institutional strengthening support provided by USAID to the Central Bank of Yemen. Putting this tool at the disposal of the CBY is an important accomplishment. The CBY needs accurate reporting to create proper monetary decisions. By providing a thorough picture of the financial system, the monetary survey will help it formulate and implement effective monetary policy.

The year 2020 brought positive news regarding Yemen's monetary policy. Money supply growth was contained in 2019 and 2020 following the CBY's adoption of a more appropriate monetary policy based on a monetary programming framework designed to ensure adequate economic absorptive capacity and money creation.

The impact of this ongoing reform has become evident in the significant decline of the currency issuance growth rate: This was 12.4% in 2019 and 15.1% in 2020, a progression from just 2018, when it was 35.8%, and from 2017 when it was 37.6%. Relatedly, the money supply (M2) rose by 8.5% in 2019 and 15% in 2020.

### II.1 Central Bank Balance Sheet

The CBY balance sheet reached 7,286.3 billion Rials in 2020, an increase of 727.5 billion Rials or 11.1% year over year. It continued to increase during the first quarter of 2021, growing by 736.9 billion Rials or 11.2% YoY to reach 7,323.2 billion Rials. Table II.1 presents the CBY key balance sheet components.

- **Assets**

Total external assets as a share of total assets fell to 4.6% as of March 2021 from 5.3% in 2020 and 9.6% in 2019. As a result, the Central Bank's net foreign assets decreased in 2020 by 305 billion Rials, a 50.6% decline year-over-year. They stood at 907.5 billion Rials (USD 2.269 billion). As of March 2021, it had decreased by 182.3 billion Rials YoY, or 23.6%, reaching a negative value of 955.6 billion Rials or USD2.389.1 billion. There are two main causes for these trends. First, Yemen's ongoing political instability has slowed oil exports. Second, the steep decline in oil exports since the outbreak of the war, deprived the country of its primary source of foreign assets. Net claims on the government increased in 2020 by 767.4 billion Rials (18.3% year-over-year) and by 689.4 billion Rials in 2019 (19.6% year-over-year). As of March 2021, net claims had increased by 707.2 billion Rials YoY or 16.1%, to 5,095.7 billion Rials.

- **Liabilities**

Base/reserve money grew by 13.3% over the entire 2020 calendar year against a target of 20.6%. Recall that base money is the sum of currency issued and bank reserves held with CBY. More specifically, currency issued grew by 15.1% and bank reserves grew by 4.4% over the year. These

increases are mainly attributed to two factors: the net effect of the increase in credit to the government in the form of direct financing of the budget deficit, on the one hand, and the decrease of foreign assets as a result of the disbursement of the remaining balance of the Saudi deposit, on the other. As of March 2021, base money had increased by 487.4 billion Rials YoY or 13.9%, to record 4,003.7 billion Rials.

**Table II.1 Central Bank of Yemen Balance Sheet (billion Rials)**

	Dec-19	Mar-20	Dec-20	Mar-21
<b>Foreign assets</b>	<b>628.4</b>	<b>522.0</b>	<b>387.8</b>	<b>339.7</b>
<b>Domestic assets</b>	<b>5,930.4</b>	<b>4,960.8</b>	<b>6,898.5</b>	<b>5,793.5</b>
Government	4,532.3	4,651.3	5,398.9	5,484.0
Public enterprises	309.5	309.5	309.5	309.5
Banks				
Fixed and other assets	1,088.6	1,103.5	1,190.1	1,190.0
<b>Assets=liabilities</b>	<b>6,558.8</b>	<b>6,586.3</b>	<b>7,286.3</b>	<b>7,323.2</b>
<b>Base money</b>	<b>3,484.7</b>	<b>3,516.3</b>	<b>3,948.2</b>	<b>4,003.7</b>
Banknotes issued	2,890.5	2,946.2	3,327.5	3,430.1
Banks	594.2	570.1	620.6	573.6
Government	330.6	262.8	429.7	388.3
Public enterprises	48.5	53.5	60.3	59.2
Social Security Fund	58.7	58.7	58.7	58.7
Certificates of deposit				
<b>Foreign liabilities</b>	<b>1,230.9</b>	<b>1,295.3</b>	<b>1,295.3</b>	<b>1,295.3</b>
<b>Other liabilities</b>	<b>1,405.4</b>	<b>1,399.6</b>	<b>1,494.1</b>	<b>1,517.9</b>
Capital and reserves	517.5	520.8	623	619.3
Revaluation account	214.4	214.4	259.8	287.1
Special drawing rights	83.8	83.8	93.5	93.5
Other liabilities	589.7	589.7	517.8	518.1

Source: CBY.

## II.2 Consolidated Balance Sheet of Commercial and Islamic Banks

The consolidated balance sheet of commercial and Islamic banks totaled 4,408.9 billion Rials in 2019, an increase of 374.7 billion Rials or 9.3% over 2018 (Table II.2).

- **Assets**

Net foreign assets of commercial and Islamic banks increased by 113.4 billion Rials, or 14.9%, in 2019, to a total of 873.2 billion Rials, due primarily to a 56.7-billion Rial (13.7%) year-over-year rise in correspondent accounts and a 30.6-billion Rial (45.8%) year-over-year rise in foreign exchange. Total foreign assets rose year-over-year in the amount of 87.2 billion Rials, or 10.6%, to 909.8 billion Rials, equal to 20.6% of total assets in 2019.

In 2019, bank reserves (cash in vaults and account balances at the CBY) increased by 60.9 billion Rials (8.5% year-over-year) to 774.5 billion Rials. This increase resulted from a 61.5-billion Rial

(85.6%) year-over-year increase in local currency held and a 0.6-billion Rial (0.1%) year-over-year decrease in reserves held with the Central Bank. Bank reserves as a share of total deposits equaled 23.8% in 2019.

Bank loans and advances increased by 161.6 billion Rials, or 7.5%, in 2019 to reach 2,319.4 billion Rials. The bulk of this increase came from loans provided to the government (primarily represented in treasury bills and Islamic *Sukuk*), which increased by 166 billion Rials (10.7% year-over-year). Advances for public institutions also increased moderately, by 0.6 billion Rials or 3% year-over-year. In contrast, private sector advances decreased year-over-year by 5 billion Rials (0.9%) in 2019.

- **Liabilities**

In 2019, total deposits grew by 222 billion Rials (7.3%) year-over-year to a total of 3,249.3 billion Rials. This increase reflected growth across several types of deposit categories: Year-over-year, demand deposits increased by 11.9%, earmarked deposits by 8%, savings deposits by 7.8%, and time deposits by 5.4%.

The net amount of other liabilities rose by 113.9 billion Rials (18.8%) during 2019 to reach 718.8 billion Rials. This rise reflected, in part, an increase in the capital and reserves of commercial and Islamic banks, which grew by 42.6 billion Rials (14.6% year-over-year) in 2019, reaching 333.7 billion Rials.

- **Deposits**

CBY 2019 data indicate increases in deposits across the board. Time deposits rose by 41.7 billion Rials (5.4% year-over-year) to 815.7 billion Rials or 25.1% of total deposits; demand deposits increased by 69.7 billion Rials (11.9% year-over-year) to 653.9 billion Rials, accounting for 20.1% of total deposits; saving accounts increased by 18.9 billion Rials (7.8% year-over-year) to total 260.9 billion Rials, equal to 8% of total deposits; and earmarked deposits increased by 3.7 billion Rials (8% year-over-year), making up 1.5% of total deposits. Government deposits increased by 9.8 billion Rials or 43% year-over-year, equaling 1% of total 2019 deposits.

Likewise, deposits denominated in foreign currency recorded an increase of 78.1 billion Rials, or 5.8%, in 2019, to a total of 1,436.1 billion Rials and a 44.2% share of total deposits. This increase reflected the stronger overall economic performance of Yemen in 2019.

- **Loans and advances**

The banking sector granted 578.2 billion Rials in credits to the private sector in 2019, a decline of 5 billion Rials, or 0.9%, from 2018 levels.

Credit to the private sector in 2019 was distributed as follows:

- Short-term loans and advances accounted for 18% of total non-government credit;
- Medium- and long-term loans accounted for 3% of total non-government credit;
- Investments from Islamic banks represented 26% of total non-government credit;
- Non-performing loans represented 53% of total non-government credit.

**Table II.2 Commercial and Islamic Banks Balance Sheet (Rials billion)**

	<b>Dec-18</b>	<b>Dec-19</b>
<b>Assets</b>	<b>4,034.2</b>	<b>4,408.9</b>
<b>Foreign assets</b>	<b>822.6</b>	<b>909.8</b>
Foreign currency	66.8	97.4
Banks abroad	414.3	470.9
Non-residents	0	0
Foreign investment	341.5	341.5
<b>Reserves</b>	<b>713.6</b>	<b>774.5</b>
Local currency	71.8	133.3
Deposits with the CBY	641.8	641.2
<b>Gross Loans and advances</b>	<b>2,157.8</b>	<b>2,319.4</b>
Government	1,554.8	1,720.8
Public enterprises	19.8	20.4
Private sector	583.2	578.2
<b>Certificates of deposit</b>	<b>1</b>	<b>1</b>
<b>Treasury bills purchased from the CBY</b>	<b>0</b>	<b>0</b>
<b>Other assets</b>	<b>339.2</b>	<b>404.2</b>
<b>Liabilities</b>	<b>4,034.2</b>	<b>4,408.9</b>
<b>Deposits</b>	<b>3,027.3</b>	<b>3,249.3</b>
Government	23	32.8
Demand	584.1	653.9
Time	774	815.7
Saving	242	260.9
Foreign currency	1,358	1,436.1
Earmarked	46.2	49.9
<b>Foreign liabilities</b>	<b>62.7</b>	<b>36.6</b>
Banks abroad	59.8	33.6
Non-residents	2.9	3
Borrowing from banks	0	0
<b>Other liabilities</b>	<b>944.1</b>	<b>1,123</b>
Loans from the CBY	5.6	13.5
Other liabilities	647.4	775.8
Capital		
Capital and reserves	291.1	333.7

Source: CBY.

### II.3- Monetary Survey

A rise in net domestic assets combined with a decline of net foreign assets led to an estimated overall rise in the money supply (M2) to 6,869.8 billion Rials in 2020, a year-over-year increase of 896.1 billion Rials (15%).<sup>1</sup>

When analyzing the dynamics of money supply components in 2020, it is worth noting that year-over-year, narrow money (M1) increased by 511.6 billion Rials (15%), while quasi-money rose by 384.6 billion Rials (15%). Taken together, this represents an increase in money across all sectors of the financial system. The rise in narrow money reflected an increase in both currency in circulation and demand deposits, and the upward trend in quasi-money was due to the increase in time and foreign deposits.

The predominance of currency in circulation, which accounted for 46.5% of the total money supply in 2020, is evidence that Yemen continues to rely heavily on cash as its primary means of financial intermediation. This reflects the ongoing institutional and access constraints characterizing the nation's financial system and generates high costs at both the consumer and institutional levels. In this regard, the overreliance on cash limits intermediation capacity and prevents access to sophisticated payment systems. Table II.3 shows the overall composition of Yemen's money supply.

**Table II.3 Decomposition of Broad Money (Rials billion, unless otherwise indicated)**

	Dec-18	Dec-19	Dec-20
<b>Broad money (M2)</b>	<b>5,504.2</b>	<b>5,973.7</b>	<b>6,869.8</b>
Broad money, annual % change	28.5	8.5	15
<b>Quasi-money</b>	<b>2,420.2</b>	<b>2562.6</b>	<b>2,947.2</b>
Quasi-money, annual % change	23.1	5.9	15
Quasi-money/broad money, in %	44	42.9	42.9
Foreign currency deposits	<b>1,358</b>	<b>1436.1</b>	<b>1,820.6</b>
Foreign currency deposits, annual % change	52.5	5.8	26.8
Foreign currency deposits, as % of total deposits	45.2	44.6	49.5
<b>Narrow money (M1)</b>	<b>3084</b>	<b>3411.1</b>	<b>3,922.7</b>
Narrow money, annual % change	33.1	10.6	15
Narrow money, as % of broad money	56	57.1	57.1
Demand deposits	<b>584.2</b>	<b>653.9</b>	<b>728.4</b>
Demand deposits, annual % change	20.1	11.9	11.4
Demand deposits, as % of broad money	10.6	10.9	10.6
<b>Currency in circulation</b>	<b>2499.8</b>	<b>2757.2</b>	<b>3,194.3</b>
Currency in circulation, annual % change	36.6	10.3	15.9
Currency in circulation, as % of broad money	45.4	46.2	46.5

Source: CBY.

<sup>1</sup> In addition initial estimates indicate that as of June 2021, broad money reached 7195.8 billion Rials, an increase by 4.6% during the first half of the current year. Thus preliminary indications are that stable monetary expansion trends have continued through the 1<sup>st</sup> semester of 2021.

A significant fraction of Yemen's net monetary emissions has been utilized to finance the government deficit. The deficit has spiked in recent years due to the deterioration of oil export revenues, alongside persistently high public wages that continue to represent the bulk of government expenditures. It should be noted that drawdowns from the Saudi Letter of Credit deposit, which was utilized to help finance urgently needed imports, helped the CBY bring broad money growth to 8.5% in 2019 (from 28.5% in 2018) and 15% in 2020.

#### **II.4 Building a Solid Framework for Conducting Monetary Policy**

The main mission of the CBY, as set forth in Law No. (14) of 2000, is to maintain price stability by keeping inflation rates low. In pursuing these objectives, the Central Bank plays a critical role in regulating the country's economic health.

To comply with its legal mandate regarding price stability, the Central Bank began targeting the growth rate of the money supply (broad money) as an intermediate target; base money, controllable by the Central Bank, is used as an operational target. There is a strong analytical foundation for this framework, based on empirical estimations conducted by the CBY with the assistance of USAID and FCDO. It was determined that base money is positively and significantly correlated with inflation, which underscores the strong relationship between the monetization of the government deficit and high inflation. This further suggests that an increase in the money supply has a persistent positive effect on inflation rates. With this in mind, the Central Bank's mission looking ahead, will be to smooth variability in the money supply to achieve price stability and provide an adequate volume of monetary resources to support inclusive growth.

The Central Bank of Yemen places great importance on adhering to this monetary targeting framework for monetary policy operations to achieve macroeconomic objectives. Starting in 2020, it specified quantitative targets for broad money and base money during CY 2020, using the monetary planning framework established with the assistance of external technical support and is closely monitoring their trajectory to keep inflation in check.

For CY2021, the annual monetary plan projected broad and base money to grow by 18.3 percent and 19.1 percent, respectively, consistent with the average inflation rate of approximately 25 percent. Designed with technical support by USAID, this plan was the second since the Central Bank relocated to Aden. The plans have focused on controlling the money supply in a manner consistent with the real economic needs emanating from both public and private sectors. These plans remain a core part of CBY's strategy moving forward. In the absence of a foreign reserve buffer, strong commitment to the annual monetary plan targets remains the only tool at CBY's disposal to attempt to contain inflationary pressures and stabilize exchange rate movements. The CBY remains committed to its effective implementation.

The monitoring of the annual monetary plan implementation revealed that overall, the CBY has been successful in its mission of controlling the money supply growth over the first quarter of the current year. Base money rose by 1.4 percent while broad money (M2) grew by 0.7 percent over the first quarter of CY 2021.

Under current macroeconomic conditions and given how prices have soared since 2014, the Central Bank's plan to restore macro-financial stability relies on several indispensable elements:



tightening monetary policy and improving monetary impulse transmission to the real sector, efforts to address external imbalances by promoting private sector exports and competitive import substitution activities and allowing greater exchange rate flexibility while building foreign reserves.

The CBY is working on setting up a combination of well-coordinated monetary policy instruments to achieve its monetary policy objectives. The market-based toolkit of monetary control instruments will be designed to include open market operations, standing facilities, and a structured reserve requirement system as the main pillars of the monetary policy operational framework.

Under this framework, the exchange rate will be allowed to adjust gradually, and the current system of multiple exchange rates will be gradually abandoned. Formalized interventions in the foreign exchange market, using a transparent and rule-based auctioning system, will smooth out high exchange-rate volatility. In addition, nominal and real exchange rate movements will be considered in designing monetary policies. The exchange rate channel works through the impact of changes in monetary flows on exchange rates and aggregate demand and supply. Any excessive increase in the money supply will normally lead to a depreciation of the exchange rate, which increases the price of imported goods and services and thereby raises domestic prices and inflationary pressures.

## II.5 Exchange Rate Policy Developments

The exchange rate of the U.S. dollar against the Yemeni Rial reached about 700 Rials per dollar at the end of 2020, up from 591 Rials per dollar at the end of 2019. The exchange rate crossed the threshold of 900 Rials per dollar several times during the last quarter of 2020. The significant depreciation, in turn, led to a substantial shortage of foreign currency in the local foreign exchange market needed to cover essential goods. Multiple shocks that hit Yemen's economy in early 2020 caused this dramatic depreciation; among them, the fall in oil prices, the decline in remittances due to the COVID-19 pandemic, and the depletion of the 2018 Saudi deposit. All of these put serious downward pressures on the exchange rate, rolling back progress made over the previous year.

The downward pressure on the exchange rate, which has escalated due to the pandemic crisis, persisted during the first half of 2021, considering the lack of foreign reserves available to cover the widening balance of payments deficit. The Yemeni Rial depreciated to around 860 YER per USD at the end of 2021Q1. During the second quarter of CY 2021, the exchange rate has crossed the threshold of 900 Rials per dollar on several occasions. These trends have led to a substantial shortage of foreign currency in the local FX market, hindering the country's ability to finance its imports of essential goods.

In response to these downward pressures and the accelerating depreciation of the Rial, the CBY approved a set of short-term measures to help further limit the demand for foreign exchange in the market:

- It adopted a new mechanism for oil derivatives imports financing that requires importers to obtain the approval of the CBY to access foreign exchange resources. Under the new

- arrangement, importers are required to deposit their daily cash sales in local currency to their accounts in commercial banks, while the CBY provides foreign currency to be utilized to cover imports.
- It set a per-day, per-individual ceiling of 500,000 Rials (or the equivalent in foreign currency) for every financial transfer and prohibited the use of foreign currency for payments in the domestic market.
  - In cooperation with security agencies and the Public Funds Prosecution, it intensified periodic inspection of all exchange companies and facilities in the liberated governorates.

Nonetheless, these downward pressures on the exchange rate are expected to persist in 2021 due to a projected lack of foreign reserves available to cover the widening gap in the balance of payments. This will continue to affect Yemeni purchasing power, placing stress on consumers and institutions. Because of these challenging economic conditions, it is likely that additional international support in the form of balance of payments assistance will be vital to Yemen's economic health.

Moving ahead, allowing for greater foreign exchange management and pricing flexibility will enable CBY to better to absorb economic shocks (for example, pandemic adverse effects, external demand shocks, negative terms-of-trade shocks, natural disasters...), and deal more effectively with high current account deficits and exchange rate risk.

## CHAPTER III: Public Finance

At the end of 2020, Yemen had a public deficit of 782 billion Rials, equal to 5.1% of its GDP, compared to a deficit of 703 billion Rials or 5.6% of GDP at the end of 2019. Though economic conditions worsened in 2020 in the wake of the pandemic outbreak, greater attention to public finance management avoided running excessive expenditures. It held the fiscal deficit close to the previous year's level.

Yemen's persistently high fiscal deficit must be addressed in the near term by maintaining tight control on spending, given the limited availability of public resources. Moreover, it is critically important to control spending in a manner that is also designed to bring down inflation and contain additional depreciation pressures.

To accomplish these objectives and effectively align public expenditures with available revenues, it will be important to focus clearly on fiscal consolidation. This should include cutting non-essential expenses, reshuffling, and prioritizing public spending (in a way that frees funds to be allocated to healthcare spending), and minimizing tax evasion and fraud. Though under the purview of the Ministry of Finance, this process requires coordination across the government. Careful coordination with the CBY will be required to avoid excessive monetary emission-based financing of the public deficit.

### III.1 Public Revenues

Total revenues and grants slightly increased by 8 billion Rials (0.9% year-over-year) in 2020, reaching 930 billion Rials. The increase resulted from the 31.7-billion Rial increase in non-oil revenues such as from taxes and customs duties and the 23.7-billion Rial decrease in oil revenues. Public revenues totaled 6.1% of GDP in 2020 (Table III.1). According to recent CY 2021 projections, total revenues could reach up to 1.49 trillion Rials as a result of the expected significant increase in oil revenues.

- **Oil revenues**

Oil revenues declined to 330.3 billion Rials in 2020, a drop of 23.7 billion Rials or 6.7% year-over-year. They accounted for 35.5% of total public revenues and 2.2% of GDP. For CY 2021, oil revenues could increase to 888 billion Rials, accounting for almost 60% of total revenue.

- **Non-oil revenues**

Non-oil revenues rose to 551.7 billion Rials in 2020, a year-over-year increase of 31.7 billion Rials (6.1%). They made up 59.3% of total public revenues and 3.6% of GDP. For CY 2021, Non-oil revenues are expected to total approx. 500 billion Rials – this would represent an approx.. 8% decrease compared to year 2020.

The composition and shifts in non-oil revenues were as follows:

- Tax revenues (including customs duties) increased to 345.5 billion Rials in 2020, a year-over-year increase of 7.5 billion Rials, or 2.2%. Tax receipts represented 37.2% of total

public revenues and 2.3% of GDP. For CY 2021, projected tax revenues represent almost 19% of total revenue.

- Non-tax revenues (which include fees and profit transfers) increased in 2020 by 24.2 billion Rials (13.3% year-over-year), totaling 206.2 billion Rials, representing 22.2% of total public revenues and 1.4% of GDP. It is expected that annual non-tax revenue should increase by about 11% in year 2021.

**Table III.1 Public Revenues and Grants (Rials billion)**

	Dec-18	Dec-19	Dec-20	Dec-21*
<b>Total revenues and grants</b>	<b>743</b>	<b>922</b>	<b>930</b>	<b>1491</b>
<b>Oil revenues</b>	<b>342</b>	<b>354</b>	<b>330.3</b>	<b>888</b>
<b>Non-oil revenues</b>	<b>377</b>	<b>520</b>	<b>551.7</b>	<b>509</b>
Tax revenues	224	338	345.5	280
Other revenues	153	182	206.2	229
<b>Grants</b>	<b>24</b>	<b>48</b>	<b>48</b>	<b>94</b>
* Budget Projection				

Source: Ministry of Finance.

### III.2 Public Expenditures

Public expenditures increased by 5.4% year-over-year during the 2019-20 period, rising from 1.625 billion Rials in 2019 to 1.712 billion Rials in 2020. They account for 11.3% of GDP in 2020. Based on the 2021 projections, total expenditure would increase to reach 2,246 billion Rials (Table III.2.a).

- **Current expenditures**

Current expenditures totaled 1,663 billion Rials in 2020, a year-over-year increase of 128 billion Rials or 8.3%. For CY 2021, total current expenditure are currently projected to increase by almost 27%, totaling 2,111 billion Rials.

- **Capital expenditures**

Capital expenditures totaled 49 billion Rials in 2020, a year-over-year decrease of 41 billion Rials or 45.6%. These remained a fairly marginal component of public spending, however, accounting for only 2.8% of overall budget expenditures in 2020. For CY 2021, capital expenditures are currently project ted to increase to approx. 134 billion Rials.

**Table III.2.a Public Expenditures (Rials billion)**

	Dec-18	Dec-19	Dec-20	Jun-21
<b>Total expenditures</b>	<b>1,652</b>	<b>1,625</b>	<b>1,712</b>	<b>2,246</b>
<b>Current expenditures</b>	<b>1,555</b>	<b>1,535</b>	<b>1,663</b>	<b>2,111</b>
Wages and salaries	821	854	878	1,048
Goods and services	308	120	199	364
Interest payments	8	30	255	208
Subsidies and transfers	389	492	281	440
Other expenditures	29	39	50	52
<b>Capital expenditures</b>	<b>97</b>	<b>90</b>	<b>49</b>	<b>134</b>

Source: Ministry of Finance.

- **Overall balance**

The overall budgetary balance in 2020 revealed a public deficit of 782 billion Rials (approx. 5.1% of GDP), compared to the deficit in 2019 of 703 billion Rials (5.6% of GDP). The ratio of total revenues and grants to public expenditures was 54% in 2020, down from 57% in 2019. While still far from the 80% coverage ratio commonly considered the rule of thumb for emerging markets, these nevertheless represented a significant improvement compared to the 45% ratio in 2018. For 2021, the overall deficit is at this point is projected at approx. 754 billion Rials, which or about 4.9% of GDP (Table III.3.b).

**Table III.3.b Overall Balance (Rials billion)**

	Dec-18	Dec-19	Dec-20	Dec -21
Total public revenues and grants	743	922	930	1,492
Total public expenditures	1,652	1625	1,712	2,246
Overall balance	-909	-703	-782	-754

Source: Ministry of Finance.

### III.3 Public Domestic Debt

Owing to the decline in public revenues since the re-initiation of civil conflict, internal public debt has increased over from approx.. 1,534 billion Rials in 2018 to 3,466 billion Rials in June 2021.

The primary source of domestic public financing is direct borrowing from the Central Bank. This equaled 1,434 billion Rials in 2018; or 93.5% of total public internal debt. Wakala deposits and certificates of deposits constituted the remaining part (6.5%) of the domestic debt. By 2020 this percentage had fallen to just under 3.3%. This in turn reflected the fact that the outstanding amount of these deposits has continued to roll over; whereas Central Bank financing of the government has continued to increase in net terms during this time-frame.

The same trend has been evident during the 1<sup>st</sup> semester of 2021. In this regard the stock of internal debt rose to 3,466 billion Rials through June 2021, with 97.1% financed directly through monetary emissions. The remaining 2.9% were financed through the rollover of Wakala Sukuks and certificates of deposit. Table III.3 presents the volume and composition of Yemen’s public internal debt for recent years.

**Table III.3- Public Internal Debt (in billion Rials)**

	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Jun-21</b>
<b>Internal public debt</b>	<b>1,534</b>	<b>2,377</b>	<b>3,009</b>	<b>3,466</b>
Central Bank financing of the government (overdraft)	1,434	2,277	2,909	3,366
Commercial and Islamic bank financing of the government (Certificates of deposits and Wakala deposits)	100	100	100	100

**Source:** Ministry of Finance and CBY.

While the current situation poses significant challenges from the perspective of stable public financial management, the Ministry of Finance is committed to achieving fiscal balance in the medium term, strengthening its institutional and governance structures, and enhancing its operational capacity to promote effective planning and timely implementation of a sound fiscal policy framework. It is expected in this regard that the volume of domestic public debt outstanding will continue to rise through end-2021, with the Central Bank continuing to represent the predominant source of finance for this debt. There is an agreement between the government and the Central Bank to move strongly in the direction of increased diversification of debt instruments in 2022.

## CHAPTER IV: External Sector

The improvement in Yemen’s political and security situation during 2019 played a fundamental role in boosting the performance of the national economy and, more specifically, the external sector. This boost was reflected, in turn, in the status of the balance of payments as exports increased and foreign earnings rose.

In contrast, the widening balance of payments deficit witnessed during CY 2020 reflects a rapid and radical deterioration of economic fundamentals due to the adverse effects of the COVID-19 pandemic and the fall in oil prices. The sharp drop in foreign export earnings led to extensive utilization of available foreign reserves, which shrank precipitously, reflecting economic headwinds and further depreciated the national currency.

### IV.1 Balance of Payments

Preliminary data indicate that Yemen experienced a deficit in the overall balance of payments of about USD 465 million in 2020. This deficit was reflected in the USD 465 billion decrease in the Central Bank of Yemen’s total foreign reserves in 2020, which fell to USD 937 million — only enough to cover 1.3 months of imports. The deficit in the balance of payments is primarily due to the twin deficits in the current account and capital and financial account.

All balance of payment indicators reflected Yemen’s challenging economic position heading into 2020. The deficit in the current account amounted to USD 644 million in 2020, equal to 3.4% of GDP; the capital and financial account recorded a small surplus of USD 7 million in 2020. The deficit of the total balance of payments at the end of 2021 is projected to be USD 1396 million.

**Table IV.1 Balance of Payments Key Indicators**

	2018	2019	2020
Current deficit, as % of GDP	-2.1	-3.6	-3.4
(Exports + Imports), as % of GDP	43.2	52.4	50.7
Exports, as % of GDP	5.6	6.9	6.2
Remittances, as % of GDP	16.6	18.8	18.5
Humanitarian assistance, as % of GDP	13.5	16.2	16.4
Imports, as % of GDP	37.7	45.4	44.4
Oil imports, as % of GDP	11.0	12.0	10.9
Food imports, as % of GDP	9.1	12.9	16.5
Gross international reserves (USD million)	2,292	1,402	937
Foreign reserves coverage in months of imports	3.1	1.6	1.3

Source: CBY.

The following section presents the primary indicators of the balance of payments in greater detail.

- **Current account**

As noted, the deficit in the current account (transactions related to goods and services, income, and current transfers) was USD 644 million in 2020, equal to 3.4% of GDP and a year-over-year decline of 20.7%. The trade deficit improved significantly in 2020, totaling about USD 7225 million compared to USD 8694 million in 2019.

- **Exports of crude oil and gas**

Crude oil and gas exports declined in CY 2020 to USD 711 million due to political instability and worsening international economic conditions. This was a USD 1101-million (35.5%) year-over-year decrease.

- **Non-oil exports**

The value of non-oil exports increased in 2020 by 1.5% to USD 468 million, a bright spot for Yemen and a reflection of early-stage work underway to diversify the country's exports.

Yemen's dependence on imported goods is reflected in the sector's share of GDP, which is well above global averages. The value of imports amounted to around USD 8404 million in 2020, a year-over-year decrease of USD 1852 million or 18.1%.

- **Imports of oil products**

At USD 2070 million, the value of oil derivative imports decreased by USD 630 million, a 23.3% year-over-year decline against the 2019 figure of USD 2700 million.

- **Food imports**

Food imports reflect a core part of Yemen's consumer spending. The bulk of basic goods are imported, which means that worsening global conditions place significant demands on consumers. At a total of USD 3114 million, the cost of food imports increased by 7.3% year-over-year in 2020.

- **Balance of income and transfers**

The net balance of income and transfers dropped to USD 6.581 million in 2020, a year-over-year decline of USD 1301 million, or 16.5%. The decline, in turn, reflected a decrease in both humanitarian assistance and worker remittances. The decline in remittances appeared to reflect regional instability and the economic difficulties faced by the Yemeni diaspora due to the effects of the pandemic.

- **Capital and financial account**

Yemen's capital and financial account recorded a small surplus of USD 7 million in 2020.

- **Overall balance**

The overall balance recorded a deficit of USD 465 million in 2020, a decrease of USD 425 million, or 47.8%, year-over-year. This was chiefly due to the low current account deficit, reflecting the



decrease in oil prices in international markets. As result, the Central Bank’s gross foreign reserves decreased by USD 465 million during 2020, the equivalent of only 1.3 months of imports. The deficit of the total balance of payments for 2021 is projected to increase by USD 901 million, or 193.8% year-over-year, and reach USD 1366 million (Table IV.2).

**Table IV.2 Balance of Payments, Actual and Projected (USD million)**

	<b>2019</b>	<b>2020</b>	<b>2021</b>
Exports of goods and services	1,562	1,178	1,728
Hydrocarbon	1,101	711	1,260
Other exports	461	468	469
Imports of goods and services	10,256	8,404	9,437
Hydrocarbon	2,700	2,070	2,691
Food	2,902	3,114	3,488
Other imports	4,654	3,219	3,258
<b>Balance of goods and services</b>	<b>-8,694</b>	<b>-7,225</b>	<b>-7,708</b>
Incomes	-18	-19	-19
Transfers	7,900	6,600	6,331
Remittances	4,250	3,500	3,581
Humanitarian assistance	3,650	3,100	2,750
Use of donor grants			
<b>Balance of incomes and transfers</b>	<b>7,882</b>	<b>6,581</b>	<b>6,313</b>
<b>Current account</b>	<b>-812</b>	<b>-644</b>	<b>-1,396</b>
Capital inflows net	0	20	30
Financial inflows net	-740	-13	0
Errors and omissions	662	172	0
<b>Overall balance</b>	<b>-890</b>	<b>-465</b>	<b>-1,366</b>

Source: CBY.

Both the balance of payments deficit and the fiscal deficit are expected to widen further over the coming months as the effects of the COVID-19 crisis continue to reverberate. Unless the main causes are addressed in the short term, these deficits will lead to more weakening of the local currency. To combat this downward pressure and help stabilize the Yemeni economy, macroeconomic and structural policies that help revive private sector activity, boost export earnings, contribute to building up a buffer of foreign reserves and limit debt monetization should be pillars of economic policy moving forward.

To stabilize the macroeconomy, Yemen needs to mobilize additional external resources while containing further exchange rate depreciation and curbing inflationary pressures in a difficult context characterized by significant rise of international food and fuel prices.

## IV.2 Public External Debt

The lack of accurate data from public authorities and lending and donor countries on the size of the Republic of Yemen's external debt is a significant, ongoing barrier to managing the nation's finances. To address this, a working group has been formed to collect data by communicating with lenders, and help restart the Debt Management and Financial Analysis System (DMFAS). The group **IV** comprises representatives of the Central Bank, the Ministry of Finance, and the Ministry of Planning and International Cooperation supported by USAID- and UK Aid-financed Pragma experts.

The most recent IMF estimates of the external public debt of Yemen indicate that the outstanding balance has increased by USD 23 million (0.3% year-over-year) to a total of USD 6.658 billion, which equals 29.5% of 2019 GDP. Due to installments and interest paid, the balance of the debt to the International Development Agency (IDA) decreased in 2019 to USD 1.535 billion, a USD 78-million (4.8%) drop. The IDA debt represents 23% of the balance of the outstanding external public debt in 2019. For the entire year 2020, total debt service to IDA equaled USD 85.9 million, of which USD 74.8 million represented principal repayments, with USD 11.1 million in interest payments. For the January-June 2021 period, total debt service to IDA equaled USD 46.1 million, with USD 40 million in principal repayments, and USD 6.1 million in interest payments.

## Appendix: Statistical Concepts and Methodology

*The Quarterly Economic and Monetary Bulletin* issued by the Central Bank of Yemen focuses on developments in and projections for global economic conditions as well as local economic and monetary developments. This Bulletin highlights the following topics in its four chapters:

### **I- Current Situation and Economic Prospects**

The World Economic Outlook report issued by the International Monetary Fund is the most reliable resource for diagnosing the development of global economic conditions and their prospects. We rely on data from the Central Statistical Organization (CSO), if and/or as available, to diagnose the conditions of the national economy.

### **II- Money Aggregates and Monetary Policy Developments**

The Central Bank of Yemen is the main source of the country's monetary and banking statistics. The General Department of Central Accounts provides the General Department for Research and Statistics with the balance sheet of the Central Bank, while the General Department for Banking Supervision provides the consolidated balance sheet of commercial and Islamic banks and their various activities.

The General Department for Research and Statistics collects these data and periodically prepares them for publication in accordance with the 2000 Monetary and Financial Statistics Manual issued by the IMF. The Central Bank treats the data it collected separately on the concerned institutions with strict confidentiality. The monetary data should be published in their final form, and these data are reviewed when any amendment is made related to the methodology used and the classification of the monetary data. The following is an introduction to the content of the most prominent terms included in the monetary tables:

- **Banks:** All commercial and Islamic banks operating in the Republic of Yemen that accept deposits.
- **Banking system:** The Central Bank of Yemen and the commercial and Islamic banks operating in Yemen.
- **Government:** The central government and the local councils.
- **Social Security institutions:** The General Authority for Insurance and Pensions, the General Organization for Insurance and Pensions, and the security and military retirement Institutions.
- **Public institutions:** Public (non-financial) institutions and companies in which the government has an interest and/or voting power.
- **Non-governmental sector:** All local sectors except the government and social security institutions.
- **Resident:** A natural or legal person who usually resides in Yemen or has been in Yemen for one year or more, regardless of the nationality of this person, with the exception of international bodies and institutions and foreign students who reside for more than one year.

- Non-resident: A natural or legal person who usually resides outside Yemen and/or who has not completed one year of residency in Yemen, regardless of the nationality of this person, except for a family or individual who has an economic center or interest in Yemen and has permanent housing even if this family or individual resides in Yemen intermittently.
- Net foreign assets: The external assets of the banking system minus the external liabilities of the banking system, based on the concept of residency. These are calculated for the Central Bank and each other bank from the external assets and liabilities included in their balance sheets.
- Net government borrowing: The sum of the claims on the central government and local councils of the banking system, minus the total government deposits with the banking system.
- Claims on the non-governmental sector: The total claims on public institutions and the local private sector.
- Other items net: The sum of the other assets of the banking system minus the sum of other liabilities of the banking system, representing items that are not included in the definition of net foreign assets, net of government borrowing, and claims on the non-governmental sector from the Central Bank balance sheet and the consolidated balance sheet of commercial and Islamic banks.
- Currency issued: The cash issued by the Central Bank, consisting of cash circulating outside banks plus cash in banks' vaults.
- Money: Currency in circulation plus demand deposits in Rials with the banking system for both the (local) private sector and public institutions.
- Quasi-money: Both savings and time deposits in Rials and deposits in foreign currencies for all sectors mentioned in the definition of money with the banking system, in addition to deposits of social security institutions.
- Money supply: The sum of money plus quasi-money as well as the sum of net foreign assets, net government borrowing, claims on the non-governmental sector, and other items net.
- Banks' deposits with the Central Bank include the following:
  - 1) Reserve requirement: The minimum value that banks must keep with the Central Bank to meet the mandatory reserve ratio imposed on deposits with banks.
  - 2) Current accounts: Current accounts opened by banks with the Central Bank of Yemen in local and foreign currencies by banks. Certificates of deposit in Rials are not considered within these accounts.
- Bank advances: Credit granted by commercial banks in the form of loans, facilities, and discounted securities in addition to financing provided to Islamic banks for their investment operations.
- Loans and advances granted to the private sector by banks: Among others, direct loans and facilities granted by banks to the private sector and banks' investments in the shares of companies.

- Loans and advances granted to the government by banks: Agency deposits (alternatives to Islamic bonds), certificates of deposit government bonds.
- Exchange rate and monetary policy: The Central Bank of Yemen strives to stabilize the national currency exchange rate — a monetary anchor point — against major foreign currencies through effective monetary policy measures to achieve a macroeconomic balance between supply and demand and to curb price inflation. The General Department of Foreign Exchange and Exchange Affairs is the source of these data and procedures.

### **III- Public Finance**

The Ministry of Finance is the source of the state's general budget data. In addition to these data, we rely on data from the Central Bank's General Budget Department, which include budget data on the following:

- Public revenues: Oil and gas revenues, direct and indirect tax revenues, including customs duties and non-tax revenues.
- Grants: All sums obtained as donations free of charge from allies and friendly countries.
- Public expenditures: Current expenditures including chapters 1, 2, and 3 according to economic classification, and development and capital expenditures containing chapters 4 and 5.
- Total balance: This represents the state's general budget and indicates the relationship between public revenues and overall public spending.

### **IV- External Sector**

- Balance of payments: The Central Bank of Yemen Law No. (14) of 2000 makes the Central Bank responsible for collecting the balance of payments statistics. The Balance of Payments Department of the General Department for Research and Statistics is tasked with collecting the balance of payments data from various ministries and government agencies and through investment company surveys.
- External public debt: The Department of Foreign Loans and Aid at the Central Bank of Yemen is the source of external public debt data. In this regard, please note that the outstanding balance of the external debt represents the amounts withdrawn from external loans minus the installments paid plus the arrears on installments and interest.

## Disclaimer

Beginning in August 2008, monetary and banking data were amended and updated in accordance with the 2000 Monetary and Financial Statistics Manual issued by the International Monetary Fund.

According to Article (45) of the Central Bank Law No. (14) of 2000, all information and individual data provided to the Central Bank is strictly confidential information and to be used only for statistical purposes, and no information may be published that reveals the financial conditions of any bank or financial institution.

The data in this Bulletin received from sources such as ministries and government agencies are preliminary data, subject to change.

We use projections made by the International Monetary Fund when and/or if no relevant national sources of data and/or information are available.

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# ECONOMIC RECOVERY & LIVELIHOOD PROGRAM (ERLP) – YEMEN

Proposal to the Central Bank of Yemen (CBY)  
for Amending Yemen’s AML/CFT Regulations  
to Increase Compliance with International  
Standards

Annex 9

June 2021

DISCLAIMER This report was produced for review by the United States Agency for International Development. It was prepared by the USAID Economic Recovery and Livelihoods Program (USAID/ERLP) implemented by The Pragma Corporation. The author’s views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

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## INTRODUCTION

Compared to the Financial Action Task Force's (FATF) better-practice recommendations,<sup>1</sup> Yemen's current anti-money laundering and counter-terrorism financing (AML/CFT) controls exhibit a significant number of deficiencies. Following its last MENAFATF mutual evaluation in 2008,<sup>2</sup> the country adopted several reforms that substantially improved its Law on AML/CFT (the AML/CFT Law) and the principal set of regulations for implementing the law (the AML/CFT Regulations).<sup>3</sup> Nevertheless, while these reforms were a vital step forward, there are still elements of the legal/regulatory regime that must be addressed to align with international standards.

Following the reforms process, CBY issued two circulars<sup>4</sup> designed to address some of the major gaps in the AML/CFT system in January 2021. These proposals included adopting a risk-based approach compatible with international standards, and forcing banks to adopt clear and specific criteria to determine the beneficial owner in accounts -- especially in accounts opened for the benefit of legal companies.

However, there are still some important gaps highlighted in the MENAFATF evaluation that must be addressed through regulatory amendments. These amendments impose obligations on the supervisory authorities to review the strategies and procedures for banks and financial institutions to manage the risks of combating money laundering and financing of terrorism. In addition to the gaps related to anti-money laundering risk management strategies, the evaluation report concentrated on the independence and autonomy of the FIU, arguing that the FIU does not have the necessary independence to exercise its functions independently away from external interventions.

This study proposes series of changes to Yemen's existing anti-money laundering and counter-terrorism financing regulations outlined in Presidential Decree No. 226 of 2010, as revised by Presidential Decree No. 2 of 2014. The amendments mentioned in this study were formulated to comply with Yemen's existing AML/CFT Law; hence, their implementation does not necessitate any amendments to the AML/CFT Law.

The regulatory changes outlined in this study would vastly improve the conformity of Yemen's AML/CFT regulations with international norms; allowing the CBY to develop a more robust AML/CFT oversight and enforcement regime, and increasing the FIU's operational independence and autonomy. The proposed amendments will also enable the CBY to provide more comprehensive AML/CFT circulars to Yemen's banks and financial institutions (FIs), encouraging them to develop and enforce more robust AML/CFT control mechanisms. Implementing these measures will improve financial integrity and deter money laundering, terrorist funding, and other financial crimes across Yemen's financial system. Adoption of the new revisions would therefore result in more accurate evaluation outcomes.

Finally, it must be emphasized that the adoption and implementation of the proposed regulatory amendments remains a first step. Additional measures will be necessary to address other weaknesses in Yemen's AML/CFT regime; including enhanced institutional coordination arrangements within the CBY; an increased number of properly trained personnel dedicated to AML/CFT monitoring and enforcement;

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<sup>1</sup> FATF is an intergovernmental organization founded in 1989 on the initiative of the G7 to develop policies to combat money laundering. In 2001, its mandate was expanded to include terrorism financing.

<sup>2</sup> In 2008, MENAFATF rated Yemen either partially compliant or non-compliant with 43 of its recommendation

<sup>3</sup> In 2010, Law No. (1) of 2010 on AML/CFT (the "AML/CFT Law") was adopted; and later that year Presidential Decree No. (226) promulgated the implementing regulations (the "AML/CFT Regulations"). The law was amended by Law No. (17) of 2013, and amendments to the regulations were issued in 2014 by Presidential Decree No. (2) of that year.

<sup>4</sup> Circulars number (2), (3) of 2021 addressed to banks and financial institutions

additional detailed guidance and instructions to be issued by the CBY and other public authorities responsible for AML/CFT matters; and enhanced compliance capacity on the part of banks and other financial institutions.

## **OVERVIEW OF RECOMMENDED REGULATORY AMENDMENTS**

In the first half of 2020, USAID's Yemen Economic Stabilization and Success (YESS program), the predecessor of the current ERLP program, conducted an assessment that identified four major areas where Yemen's existing AML/CFT regulations were inconsistent with FATF recommendations:

1. The current regulations do not establish a system for regular review of AML/CFT risk management strategies
2. information on the Beneficial Owners of Legal Persons is not updated periodically by supervisory bodies
3. Yemen's regulatory definition of Shell companies does not meet FATF definition of such entities
4. The current regulations do not enhance FIU's independence and autonomy

## **STEPS REQUIRED TO OBTAIN ADOPTION OF AMENDMENTS**

Article 51 of the AML/CFT Law specifies that the AML/CFT Regulations are to be issued by Presidential Decree, after submission by the National Committee on Anti-Money Laundering and Counter-Terrorism Financing (the "National Committee") and approval by the Council of Ministers.

Therefore, the CBY should:

1. Finalize the proposed set of amendments to the AML/CFT Regulations.
2. Submit the proposed amendments to the Chairman of the National Committee
3. Meet with the Chairman to review and explain the amendments; and to assist him with obtaining the approval of the Council of Ministers; and
4. Following Council of Minister approval, work with the President to issue a Presidential Decree promulgating the amendments.

## **PROPOSED AMENDMENTS TO AML/CFT REGULATIONS**

### **I. AMENDMENTS TO AML/CFT RISK MANAGEMENT STRATEGIES**

The Central Bank's issuance of Circular No. (2) for 2021 required concerned entities to routinely prepare an annual assessment of all current and potential risks. The regulation also required these entities to promptly submit an assessment whenever their risk monitoring procedures indicated a material change in risk to the supervisory authorities; in addition to its strategy for mitigating each identified risk. However, the regulations do not require the CBY's Supervision Department to review all AML/CFT risk management strategies and procedures established by banks and financial institutions. The rules should also require the CBY to ensure that its circulars thoroughly reflect the provisions of Circular No. 2.

**It is proposed that Article 30 bis of the AML/CFT Regulations be amended to add a third paragraph reading:**

*“The Supervision Department of the CBY shall establish and implement a system for regularly reviewing all AML/CFT risk management strategies and procedures established by banks, financial institutions, and DNFBPs. The Supervision Department shall also issue such circulars and instructions as may be needed to ensure the thorough and proper implementation of these regulations.”*

## **II. AMENDMENTS TO INFORMATION UPDATES ON THE BENEFICIAL OWNERS OF LEGAL PERSONS**

MENAFATF has criticized Yemen for not taken any steps to establish a flexible and prompt mechanism for its competent authorities to obtain sufficient, accurate, up-to-date information on the beneficial owners of legal persons.

As pointed out by the MENAFATF evaluation report, the current AML/CFT regime does not provide a flexible and prompt mechanism that enables the concerned supervisory authorities to obtain sufficient, accurate, up-to-date information on the beneficial owners of legal persons. Therefore, the regulations should be amended to mandate such a mechanism.

**It is proposed that Article 30 bis of the AML/CFT Regulations be amended to add a fourth paragraph reading:**

*“The Supervision Department of the CBY has the authority and responsibility to obtain and maintain sufficient, accurate, and up-to-date information on the beneficial owners of legal persons. To ensure that such information is available to it, the Supervision Department shall have the authority to require all covered entities: (1) to routinely provide the Supervision Department with up-to-date and accurate information on their beneficial owners; and (2) to require all legal persons that are customers of the covered entity or which the covered entity does business to provide the covered entity with up-to-date and accurate information on their beneficial owners and to then transmit that information to the Supervision Department. The Supervision Department shall also have the authority to access and obtain any and all information held by any other competent authority on the beneficial ownership of a legal person, as well as information held by the legal person itself.”*

## **III. AMENDMENTS TO SHELL COMPANIES DEFINITIONS**

Yemen’s AML/CFT Law prohibits the establishment of shell banks and off-shore branches of foreign shell banks. It also forbids Yemeni financial institutions from dealing with any financial institution that does not physically exist in its state of registration, or is not under effective supervision in that state. Yemeni financial institutions are also barred from dealing with counterpart financial institutions that provide services to an internationally banned financial institution.

Yemen’s regulations, however, do not explicitly prohibit the establishment of shell companies and therefore permit the use of an instrumentality, the principal purpose of which is to conceal the identity of the beneficial owner. Shell corporations - companies with no independent operations, significant assets, ongoing business activities, or employees - are widely used to launder the criminal proceeds. Other instrumentalities, such as front companies and bearer shares, are used less frequently.

The AML/CFT Regulations should be amended to prohibit banks, financial institutions, and DNFBPs from doing business with shell companies or having such companies as clients.

**It is proposed that Articles 2 and 6 of the AML/CFT Regulations be amended to add the following terminology:**

*It is proposed that the term “Shell Financial Institutions” in Article 2 of the AML/CFT Regulations be changed to “Shell Companies,” and that the Arabic term be changed from Jawfaa to Sowariya (شركة جوفاء الى شركة صورية) to be consistent with FATF terms.*

#### **IV. AMENDMENTS TO ENHANCE FIU INDEPENDENCE**

The anti-money laundering regulations stipulated that the FIU is composed of its head and its members, and stated the qualifications that the head of the FIU and its members must meet. However, the reasons that may justify the dismissal of the FIU head are not indicated in the regulations, which is not consistent with the principles of FIU independence enshrined in the Egmont Rules.

The operational independence and autonomy of the FIU is a fundamental condition for an effective anti-money laundering and counter financing of terrorism (AML/CFT) framework. The consequences for the FIU of vulnerability to having its operational independence and autonomy compromised can have a significant impact on efforts to combat money laundering (ML) and terrorist financing (TF). The credibility of the FIU among the private sector and domestic law enforcement is critical to its ability to gather the information it needs domestically, and to exchange information with international partners. Furthermore, if the FIU is potentially subject to political influence, there may be negative downstream effects on the quality and scope of investigations related to ML, TF, and predicate offenses (such as corruption and organized crime).

FIU characteristics have been identified in Yemen mutual evaluation reports (MER), highlighting several common jurisdictional shortcomings related to FIU operational independence and autonomy. These issues are related to the appointment and dismissal of the Head of FIU (HoFIU) (which can make him subject to political influence), and challenges to the FIU’s independent decision-making capability.

The appointment and dismissal of the HoFIU should be apolitical, timely, and based on merit. The independence of the HoFIU is critical to the success of the FIU. As such, it is vital that the appointment and dismissal processes are free from political influence and lead to appointments based on merit.

Article 30 of Law No. 1 of 2010 stipulates that the FIU must be an independent unit established by a decision of the Council of Ministers based on the proposal of the Governor of the CBY, and that it shall consist of a chairman and members.

However, neither the law nor the regulations specify the conditions for dismissing the head of the FIU, which creates uncertainty and potentially undermines the independence the FIU must have to carry out its duties.

**It is therefore proposed that Article 43 of the AML/CFT regulations be amended to add the following paragraph:**

*The head of the FIU may not be dismissed except by a decision of the Prime Minister upon the recommendation of the Governor of the Central Bank, which must be based on one or more of the following justifications:*

- *A serious failure to carry out the duties of his position, as determined by an independent investigative committee established by decision of the Prime Minister.*
- *Conviction by a court of a crime that involves fraud or that requires mandatory imprisonment.*

- *If he is declared bankrupt by a court and has not been rehabilitated*
- *If he becomes unable to perform his duties due to a physical or mental illness as determined by an independent panel of three medical physicians.*



# ECONOMIC RECOVERY AND LIVELIHOOD PROGRAM (ERLP) – YEMEN

## AML/CFT OFF-SITE SUPERVISION MANUAL

### ANNEX 10

June 2021

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## I. INTRODUCTION

Off-site supervision involves surveillance of the financial institutions using tools designed to capture information on an institution's level of inherent ML/TF risk and the quality of its risk management. The examiner will use an institutional profile, a risk matrix, and the related data collection tools to capture and analyze data on inherent risk. He also shall use an AML/CFT Questionnaire to capture information on the quality of risk management and probe other relevant data and information collected by the examiner.

Apart from the above-mentioned supervisory tools, other sources of valuable information that can be analyzed through off-site surveillance activities are:

- a. The financial institution's policies and procedures
- b. Reports, if any, that assess the role of the board and financial institution's management in better developing and implementing an AML/CFT compliance program compatible with applicable law and regulations
- c. Internal and external audit reports and other reviews of a financial institution's AML/ CFT risk management systems
- d. Internal reports to the financial institution's board of directors prepared according to the AML Law, rules, and directives
- e. Press reports and market intelligence, including information such as the financial institution's annual report or other information relating to changes in strategy or the release of new products and services and expansion into new markets which could change the financial institution's risk profile
- f. The financial institution's risk assessment of ML/TF risks arising from its customer base, products and services, delivery channels, and geographic spread of activities, customers, and transactions.
- g. Internal reports used by financial institutions management to monitor customers, accounts, activities, and transactions
- h. Reviews of the financial institution's decision-making process in analyzing and reporting unusual, suspicious transaction activity transactions, if any
- i. Information from the FIU relating to reporting experience and compliance with the law
- j. Previous examination and enforcement actions reports

In addition to the data and information analysis, the examiner must consider the adequacy of the financial institution's risk management systems and controls. This information is collected through the AML/CFT Questionnaire and assessed by examiners before the examination. As the supervisory process evolves, this initial assessment is updated with information obtained during onsite inspections.

AML/CFT supervisors should analyze risk considering other information available and consider an appropriate response to address it. The frequency of visits by supervisors depends on many factors, including results from previous inspections and the number and types of institutions they supervise, the general risk posed by their sector, and a targeted allocation of supervisory resources. If an onsite examination is conducted, its extent and focus should be commensurate with the analysis of identified risks.



## **II. SUPERVISION PROCESS NOTES**

- Base regulatory assessments on group discussions to ensure the inclusion of a wide array of perspectives. All relevant members of the examination team should contribute to discussions and the overall evaluation, as the inclusion of all viewpoints and perspectives will contribute to a higher quality report.
- Keep a record of the key arguments, findings, and conclusions of your discussions. These notes will be important in documenting the analysis and support for the conclusions and findings featured in the final examination report.
- The quality of the output depends on the quality of the input. An unrealistic assessment will reduce the credibility of the assessment and will limit the benefit the institution derives from the evaluation.
- During the assessment, clearly identify problems, weaknesses, or gaps by determining what is missing and what is not working. Such an approach will assist in the creation of post-assessment action plans.
- Support all findings and conclusions with clear analysis and documented evidence to substantiate the basis for each rating.
- Prepare team reports on the key findings and conclusions supported by references to underlying sources. These reports will become the building blocks of the overall regulatory examination report.

## **III. OBJECTIVES OF THE OFF-SITE SUPERVISION**

The main objectives of the off-site supervision are:

- Evaluating the soundness of the AML/CFT system in the financial and non-financial institution and its commitment to apply the regime appropriately.
- Determining the degree of risk of the financial and non-financial institution relative to the possibility of using the institution to commit money laundering and terrorist financing crimes.
- Providing the inspectors with all necessary information and data enabling them to identify deficiencies and weaknesses while planning for the field inspection program according to the degree of risk of each company, which will represent an early warning system.
- Identifying the overall vulnerability of the banking sector
- Identifying financial institutions that have high vulnerability
- Identifying as needed the products or services offered by the financial institution types with high ML vulnerabilities
- Prioritizing action plans that will strengthen anti-money laundering controls (AML) in the banking sector.

The outcome of the risk assessment is necessary for:

- Designing action plans for more effective AML policies and practices throughout the sector
- Evaluating the impact of different interventions by regulatory (and other relevant) authorities
- Comparing the level of vulnerability of different types of financial institutions within the banking sector, and that of other financial sectors
- Ensuring efficient resource allocation
- Developing specific AML controls for high-risk financial institution types/products.

#### **IV. OFF-SITE CONTROL PROCEDURES**

To achieve the objectives of office supervision, the examiner shall review all reports received by the office supervision sector, including periodic data received from the financial and non-financial institution, the legal auditor's report and licensing data, and take the following actions:

- Verify that all companies subject to the supervision of the Financial and Non-Financial Institution Supervision Authority meet all licensing requirements, especially values related to assigning the management of the financial and non-financial institution to those who meet the eligibility criteria
- Review the legal auditor's report for any observations regarding:
  - Sufficient information and data provided by the financial and non-financial institution
  - Violations of any provision in the Anti-Money Laundering and Terrorism Financing Act 2010, as amended, and executive regulations.
  - Adequacy of the applicable internal control systems and the degree of commitment of the financial and non-financial institution to these procedures
    - Deficiency in the extent to which the financial and non-financial institution implemented recommendations from previous years
  - Record-keeping and documentation of the financial and non-financial institution's operations and performance of regular internal and external audits.
  - Accuracy of the periodic data sent to the supervisory authority of the financial and non-financial institution regarding the success of its AML/CFT efforts relative to the institution's actual transaction records and books.
  - Other observations mentioned in the auditor's report related to combating money laundering and terrorist financing.
- Conduct an analytical study of the data available through which the risks of the financial and non-financial institution can be assessed generally, reviewing the number of domestic and international branches, the size and quality of services and products offered. These considerations vary based on the degree of risk, the geographical distribution of the institution's clients, and the nature of the activity. Other considerations include identifying any negatives or weaknesses existing in the AML/CFT system of the financial and non-financial institution.
- Identify the negatives and weaknesses revealed by the latest field inspection report on the financial and non-financial institution and the corrective measures taken by the financial and non-financial institution.
- Prepare a periodic report to assess the AML/CFT system and the problems expected to face in the future.

## V. RISK MATRIX

A risk matrix is an **off-site supervisory tool** designed to assist examiners in identifying areas of high inherent risk related to customers, product/service, or geographic locations. It also serves as a diagnostic tool for a financial institution to focus its analysis on the most significant activities and issues relevant to ML/TF risks, management, and supervision. These criteria divide into two main areas of analysis: (a) qualitative factors and (b) quantitative analysis.

a) **Qualitative factors:** The examiner should consider issues such as the legal structure and geographic location of the financial institution's clients; the quality of management and their risk culture (conservative vs. risk taker); regulatory compliance/sanctions history; standing and reputation in the applicable sector/industry; etc.

This analysis should focus on understanding the types of clients, markets, locations, products, services offered, and the organizational culture. All factors can assist the supervisor in creating an approach to ML/TF risk management and compliance. Internal and external audit information, stock exchange filings, and other similar types of documentation would also complement this analysis and the quantitative analysis described below.

b) **Quantitative analysis:** Quantification of the more relevant activities and characteristics of a financial institution that could increase the ML/TF risks (e.g., levels and trends in business lines, funding sources, and liquidity; primary sources of income on and off-balance sheet; breakdown of types of clients in the various activities by, for example, nationality, geographic location, PEPs, etc.)

This analysis should correlate with the qualitative analysis and potential ML/TF risk exposure to the greatest extent possible.

### I. PART ONE: INHERENT RISK

#### STRUCTURAL FACTORS

Structural Factors identify the main structural characteristic features and business of the financial institutions compared with its peers operating in the financial institutions' sector. Several structural or institutional risk factors count as macro-level indicators of inherent ML/TF risks. For regulated financial institutions, structural indicators that the AML/CFT inspectors will consider are:

#### SIZE

The assumption underlying size as an indicator of risk is that the larger an institution, the higher the probability of ML/TF occurring due to the number of assets it manages, number of clients, geographic reach, size and volume of transactions, etc.

AML/CFT inspectors can determine an institution's size by measuring its total assets, gross income, number of customers, branches, and employees, etc. It is recommended to use total assets for this analysis because it is the most robust and stable indicator of size.

## CORPORATE STRUCTURE

Issues involving corporate structure relate to the strength and transparency of ownership and control, including management oversight, governance, risk management, and more generally fit and proper issues. AML/ CFT inspectors may derive certain assumptions regarding risk by examining these factors. For instance, regulated financial institutions with less transparent or complex ownership structures may adversely influence the implementation of good corporate governance practices and accountability, leading to compliance failures.

## FINANCIAL GROUP

Regulated financial institutions that are members of well-established and regulated financial institutions or groups may have different risk profiles than standalone private regulated financial institutions. In a similar vein, regulated financial institutions whose ownership or controllers are associated with participation from countries with high crime and / or weak prudential and AML/CFT regulation and supervision may have a higher risk profile than their counterparts in countries with strict regulation and oversight.

## GEOGRAPHIC ZONE

While not included in the risk matrix, AML/CFT inspectors should consider the financial institution's spread of its business activities. The spread of business across the country or abroad through branches or subsidiaries can impact a financial institution's exposure to risk and its ability to oversee and control such risks. This factor can also measure geographic risk (not necessarily related to size) based on the location of branches and subsidiaries.

## **2. PART TWO: RISK MITIGATION**

The qualitative assessment of the quality of risk mitigation factors comprises the second building block of the risk assessment methodology used by AML/CFT examiners. The risk methodology assesses the quantity of risk and the quality of risk management, controls, and legal compliance. Controls are assessed using the rating system for the quality of risk mitigation from 1 (very good) to 5 (very deficient).

Assessing the quality of risk mitigation is essentially a function of onsite examinations; however, at least during the first phase of this methodology, results will be based on an assessment of responses to the AML/CFT Questionnaire (Annex 1). The onsite examination process and procedures will further document the detailed examination steps and techniques used to assess the adequacy of risk management and controls, including the review of legal compliance and updates to the assessment of inherent risks and the overall institutional risk profile.

## RATING SYSTEM

The risk matrix uses a simple risk rating system from 1 (very low risk) to 5 (very high risk) for all the variables linked with the assessment of quantitative analysis. Essentially, it analyzes the variables relative to the market. A financial institution's risk rating is determined by its position relative to its peer group or sector using a simple linear interpolation technique.

## RISK RATINGS

Each structural factor and significant activity are assigned a qualitative risk rating based on its perceived inherent risk. This value is then converted to a numerical equivalent.

The individual weights (%) assigned to each significant activity are applied to each of the inherent risk ratings (1 to 5) to produce total weighted risk for each activity and the sum of all the activities of the concerned financial institution. The numerical results from these calculations can be reconverted to a qualitative rating.

The results of the risk matrix examine both risks arising from business activity and the adequacy of the control environment. These results should be used to determine the frequency and scope of onsite examinations.

Examiners should supplement results obtained from the risk rating with other off-site supervisory information to assist them in identifying regulated financial institutions with high ML/TF risk when considered against their activities or customer base or control environment.

## VI. THE QUARTERLY DATA THAT THE FI AND NON-FI IS OBLIGATED TO SEND:

- Products and services.
- Risks related to customers.
- Risks related to specific geographical areas.

These risks are explained as follows:

### I. RISKS OF PRODUCTS AND SERVICES

These risks relate to products and services exploited in money laundering and terrorist financing schemes, including new or innovative products or services, whether provided by companies or that of which they are a party. The following are some of the characteristics of these services that expose companies to these risks:

- Services identified as having high risks by the FIU in coordination with the BSD in CBY.
- Services that do not allow disclosure of a large amount of information related to the identity of their users, or those of an international character, or services provided through the international information network.

### 2. CUSTOMER RISKS

They include risks related to clients, or their dealings with companies, or the professional sector to which they belong. When evaluating these risks, it is necessary to rely on information obtained through identification procedures and examining the pattern of customers' transactions. The following are some of the factors that are made as a guide when determining the financial and non-financial institution of these risks:

## CUSTOMER RISKS:

- Clients whose actual beneficiaries are difficult to identify, for example, because of the complexity of their ownership structure, in the case of legal persons.
- Clients whose reputations or previous dealings are found defective.
- Non-resident clients.
- Clients who are considered risky persons due to their public office and / or their associates

#### RISKS RELATED TO CUSTOMER TRANSACTIONS:

- The client's dealings do not match the declared purpose of the transaction.
- The services requested by clients do not match the nature of their activities.
- The client requests the performance of a complex transaction without a clear justification.
- The client's transactions require interaction with companies' headquarters far from the client's residence or workplace without clear justification.
- The customer makes multiple transactions with multiple companies or in more than one company located in the same area, without a clear purpose.
- The client deposits or withdraws large amounts of cash inconsistent with their occupation and investment
- The client noticeably changes their pattern of dealings with companies without clear justification.
- The institution learns of the customer's illegal activities.
- The customer requests excessive secrecy for certain transactions.
- Indirect operations, or those taking place using modern technological means, that hide the customer's identity

#### RISKS RELATED TO THE SECTORS OF ACTIVITIES PRACTICED BY CUSTOMERS:

- Activities characterized by intensive cash transactions, including activities related to providing financial services, such as money transfer companies and exchange companies.
- Charities and other non-profit organizations.
- Dealers in precious metals, precious stones, antiques and artworks.

### 3. RISKS RELATED TO SPECIFIC GEOGRAPHICAL AREAS

The risks related to the client's place of residence or work, and the source and destination of the operations that take place, may be guided by the following:

- Countries subject to sanctions, trade embargoes, or other similar procedures by the United Nations.
- Countries the Financial Information Collection Unit in coordination with the Supervisory Authority of the Financial and Non-Financial Institution identifies as:
  - Not having adequate legislation or systems to combat money laundering and terrorist financing, or does not apply the recommendations of the Financial Action Task Force or does not apply it with the required efficiency.
  - Financing or supporting terrorist activities.
- Countries known for a high level of corruption or other illegal activities, such as drug trafficking, cultivation, arms smuggling, and others.

- The following is a sample evaluation sheet that companies are obligated to prepare periodically regarding the classification of customers according to risks:

## VII. UPDATE CUSTOMER DATA AND DOCUMENTS:

Statement	Updated Data		Customer Distribution		Comments
	%	Number	%	Number	
High-Risk Customers					
Medium-Risk Customers					
Low-Risk Customers					
Total					

The data and documents relating to clients must be updated periodically - at least once a year for high-risk clients, once every two years for medium-risk clients, and once every four years for low-risk clients – accounting for any changes that occur. Suspicion regarding the customer can occur at all stages of the transaction, provided that the FIU receives a quarterly statement describing accomplishments in this endeavor.

## VIII. EMPLOYEE TRAINING

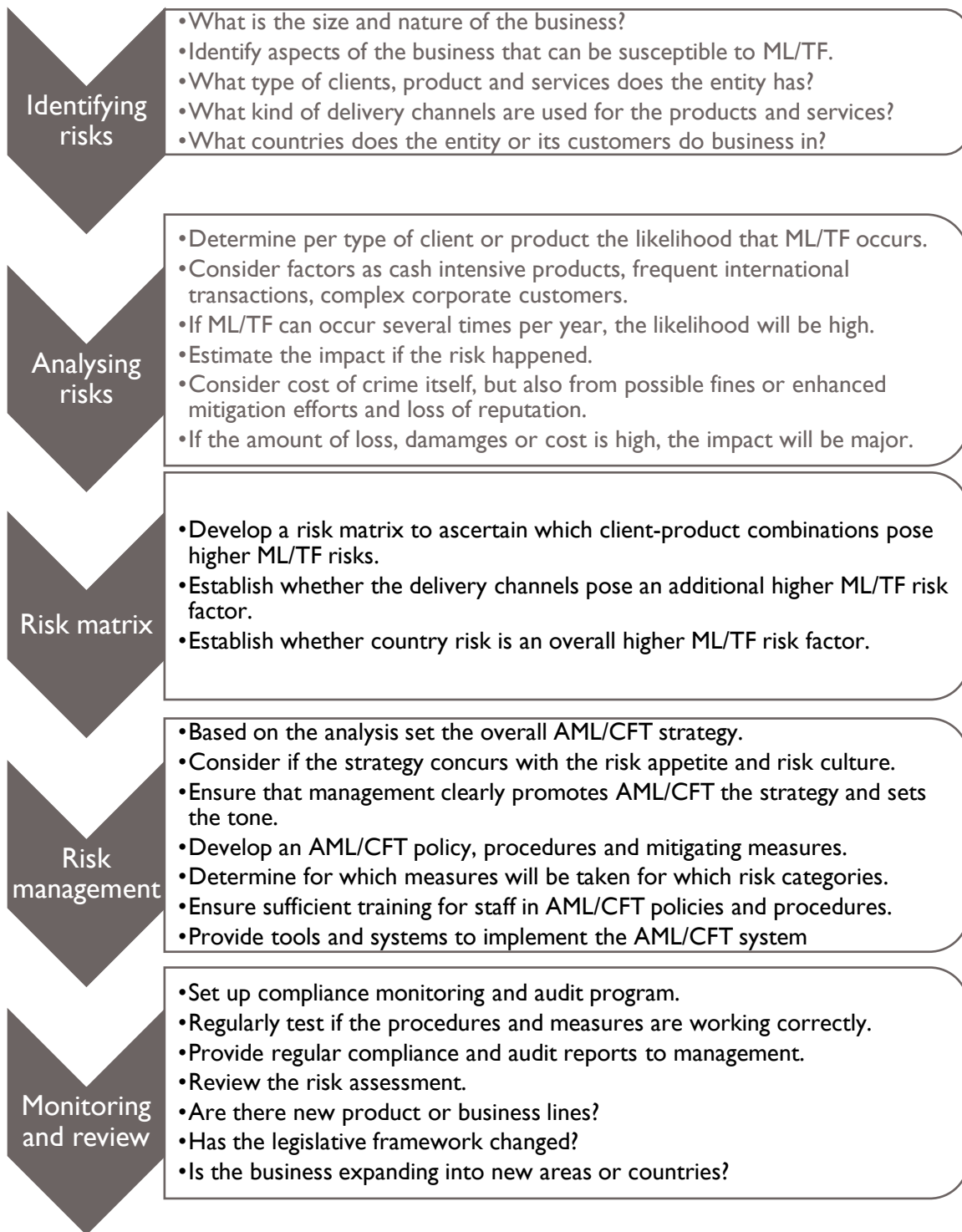
Companies must prepare and implement continuous training programs for workers in the field of combating money laundering and terrorist financing with increased interest in branch workers. Quarterly statements indicating the number of employees trained, the number of training hours, the body that carried out the training, and the number of re-training sessions are necessary.

## **IX. COMPLIANCE OFFICER REPORT**

- The compliance officer shall prepare a periodic report - at least once a year - on the AML / CFT activity, to be submitted to the board of directors of the financial and non-financial institution, and this report includes - as a minimum - the following:
  - The efforts undertaken during the reporting period regarding unusual and suspicious transactions and actions taken in this regard.
  - The weaknesses and proposals for avoiding the financial and non-financial institution's systems and procedures for combating money laundering and terrorist financing followed, including reports on extraordinary operations made available by the internal systems of the financial and non-financial institution
  - Amendments to policies, internal systems, or procedures of the financial and non-financial institution to combat money laundering and terrorist financing during the period covered by the report.
  - Expression of commitment to implement the plans set during the reporting period for general office and field supervision of the various branches of the financial and non-financial institution to verify its commitment to implementing the provisions of laws, supervisory controls, and internal systems in the matter of AML/CFT
  - Presentation of the plan for general office and field supervision of the financial and non-financial institution branches during the next reporting period.
  - Appropriate application of laws, activities, and standards.



## X. STEPS TO BE TAKEN FOR THE ML/TF RISK ASSESSMENT



## ANNEX I

### Rating Scale Questionnaire (to be used by the Financial Institution)

#### Objectives of the Questionnaire

The BSD is responsible for ensuring that licensed financial institutions comply with the Law on Combating Money Laundering and Terrorism Financing requirements.

The purpose of the Anti-Money Laundering and combating the Financing of Terrorism Questionnaire is to assess the adequacy of the policies and internal controls for deterring, detecting, and reporting suspected money laundering and terrorist financing activities (ML/FT).

Use a scale of 1 (excellent) through 5 (poor). When assigning a rating, the reviewer should consider the applicability between policy and procedures and the effectiveness of their implementation.

TABLE I. RATING SCALE QUESTIONNAIRE				
Name of the Financial Institution:				
Item	Y/N	Description	Comments by Reviewer	Rating (1-5)
<b>I.1 Corporate Governance and Role of the Board</b>				
a. Has the Board of Directors approved written AML/CFT policies and procedures?				
b. How often are the policies and procedures reviewed? Updated?				
c. Has the Board of Directors implemented an AML/CFT program? Describe its main features and consistency with the AML/CFT legislation?				
d. How does the board communicate and ensure that all relevant offices or units effectively implement the AML/CFT program?				
e. Does the board or one of its committees meet periodically with the chief compliance officer? If so, how often?				
f. Has the board issued specific risk management policies and procedures				

with respect to ML/FT risks?				
<b>I.2 Management Information Systems</b>				
a. Does the financial institution have an information system capable of detecting, analyzing, monitoring, and generating reports on customer transaction profiles?				
b. Does the financial institution maintain a customer profile database?				
c. Is the information system capable of generating indicators (red flags) of the possibility of suspicious transactions? If so, provide statistics of such results.				
d. Do the management, and the board receive AML/CFT reports generated by the system or summaries thereof?				
<b>Average Rating</b>				
<b>Remarks</b>				
<b>2. Policies and Procedures: Customer Due Diligence (CDD/KYC)</b>				
a. Does the financial institution have written policies and procedures for CDD/KYC principles?				
b. How often are the CDD policies and procedures reviewed? Updated? When were they last updated?				

<p>c. Does the financial institution adopt a risk-based approach that complies with CBY instructions?</p> <ul style="list-style-type: none"> <li>-classify customers based on three levels of risks</li> <li>-Review customer's classification periodically (every year for high-risk customers, every two years for medium-risk customers, every 4 years for low-risk customers)</li> </ul>				
<p>d. Have the policies and procedures been disseminated to all financial institution employees and management? How was this dissemination conducted?</p>				
<p>e. Has the financial institution implemented AML/CFT policies and procedures CDD measures for Customer Identification and Verification with respect to:</p> <ul style="list-style-type: none"> <li>-Resident individuals</li> <li>-Non-resident individuals</li> <li>-Legal entities: companies etc.</li> <li>-Beneficial owners</li> <li>- Cross border correspondent banking relationships</li> <li>-PEPs</li> <li>-Non-profit organizations</li> </ul>				
<p>f. Are the above policies and procedures implemented on a group level locally, if applicable?</p>				
<p>g. Are the AML/CFT policies and procedures implemented in all your foreign branches and subsidiaries, if applicable?</p>				

<p>h. Do the CDD policies and procedures provide for:</p> <ul style="list-style-type: none"> <li>– Customer acceptance and rejection</li> <li>– Enhanced CDD for higher-risk clients, products, transactions, etc.</li> <li>– Monitoring of customer accounts and transactions</li> <li>– Internal and external (FIU) reporting of suspicious transactions</li> </ul>				
<p>i. Does the financial institution require information on the beneficial owner in the event that a prospective customer is an intermediary or authorized representative for another party?</p>				
<p>j. Do the identification and verification procedures for all new customers include the following?</p> <ul style="list-style-type: none"> <li>–Examination of documents for authenticity.</li> <li>– Face-to-face meeting with prospective customers. When is this not required?</li> <li>–Cross check information with independent sources.</li> <li>– Conduct stricter verification for customers classified as high risk, linked to high-risk business, and/or from high-risk countries.</li> <li>–In the case of companies, obtain information online of business, location, financial statements, expected transaction profile, etc.</li> </ul>				
<p>k. Does the financial institution’s CDD policy include checking of clients</p>				

against high-risk customers in official country lists or lists issued by international organizations, e.g., UN terrorism lists?				
I. Describe your CDD procedures when customer business is conducted through or with the participation of: - Third-party intermediaries - Others non-face-to-face business.				
<b>Average Rating</b>				
<b>Remarks</b>				
<b>I. Risk Management</b>				
a. Is there a specialized Risk Management group or unit within your financial institution? If so, do its functions include ML/FT risks?				
b. Does your financial institution have a policy for conducting periodic ML/FT risk assessment? If so, what is the scope and frequency of such assessments, i.e., Products/policies, clients, geographic location, delivery channels, and use of intermediaries?				
c. Does your financial institution have an ML/FT risk classification system in effect? If so, describe.				
d. Are there specific types or categories of products and clients identified as high risk? Which categories and how many have been so identified?				

e. Does the board consider ML/FT risks in approving the expansion of business, e.g., new branches and markets (domestic and foreign)?				
f. Are there any policies and procedures for assessing ML/FT risks in the development of new products, including products/policies? If so, who participates in the assessment of such risks?				
<b>Average Rating</b>				
<b>Remarks</b>				
<b>2. Internal and External Audit Controls and Reviews</b>				
a. Does your financial institution have an Internal Audit Department/function? Does it review and test the AML/CFT program, CDD/KYC policies and procedures according to its audit plan?				
b. Is the Internal audit function documented? If yes, provide a copy.				
c. What is the size of the audit unit? What proportion of time is devoted to AML/CFT issues by the internal audit?				
d. The internal audit function with respect to AML/CFT risk-based? Is compliance with policies and procedures for PEPs and other high-risk clients specifically reviewed?				

e. In the last audit, was the system for identifying and reporting suspicious activities and transactions reviewed?				
f. Describe the system of reporting and reviewing the internal audit findings. Who receives such reports? Have any of these reports included AML/CFT issues? If so, describe.				
g. Does the Board of Directors of a Committee thereof receive audit reports? On AML/CFT?				
<b>Average Rating</b>				
<b>Remarks</b>				
<b>3. Compliance Officer</b>				
a. Has the financial institution appointed an AML/CFT compliance officer? If so, provide the name, functions and place within the organization? Is it at the managerial level?				
b. Provide details of the AML/CFT compliance officer's professional qualifications, training, duties and responsibilities.				
c. Does each office, branch or subsidiary have a compliance officer or AML/CFT officer? If so, describe the relationship with the head office Compliance officer.				
d. 55 Does the AML/CFT compliance officer carry on duties other than AML/CFT? If so, what other				



functions and what proportion of time are devoted to AML/CFT issues?				
e. To whom does the compliance officer report?				
f. Provide copies of the last 3 reports prepared by the chief AML/CFT compliance officer.				
<b>Average Rating</b>				
<b>Remarks</b>				
<b>4. Training</b>				
a. Is there an AML/CFT training program in place for employees?				
b. Does the compliance officer attend professional training regarding ML/FT methods and typologies, CDD, suspicious activity monitoring and reporting, record keeping, etc.?				
c. What type of AML/CFT training, if any, does your institution for its employees? When was the last training program delivered?				
d. What is the frequency of training provided?				
e. Are there different types of AML/CFT training programs, e.g., for new and existing employees?				
f. Has the board and senior management participated in AML/CFT training? If so, describe.				
g. Does your financial institution retain records of				

its training sessions, including attendance records and relevant training materials used?				
h. What was the AML/CFT training budget for last year? Current year?				
i. Does your financial institution screen prospective employees, (e.g., criminal records, work experience, etc.)? If yes, what other checks and examinations does your financial institution conduct?				
<b>Average Rating</b>				
<b>Remarks</b>				
<b>5. Monitoring and Suspicious Activity Reporting</b>				
a. Does your financial institution have an internal system for detecting and reporting unusual and suspicious activities? If yes, Manual or Automated?				
b. Are there specific monitoring systems for terrorism finance? If so, describe in detail.				
c. Does the financial institution have a system for monitoring and reporting unusual and suspicious activity on a group-wide basis from branches and subsidiaries? What are the procedures with respect to foreign branches and affiliates?				
d. If yes to the above, please attach flow charts for this mechanism.				

e. Are the reports from the operational units followed through by analysis by the Compliance officer/unit?				
f. Describe, if any, the security measures applied to prevent information about unusual and suspicious activities from being disclosed to unauthorized parties, wittingly or unwittingly.				
g. Are monitoring and reporting mechanisms the same for all types of clients? What about PEPs?				
h. Does the financial institution monitor accounts and transactions for non-profit organizations to prevent misuse of these accounts for suspicious transactions, including terrorist financing? Any other client categories apply?				
i. What is the procedure applied once an account, transaction or activity is identified as unusual or suspicious? Are these procedures documented? How are these communicated to staff?				
j. Describe the analytical process that is undertaken to decide whether or not a STR is sent to the FIU.				
k. Who analyzes unusual and suspicious activities detected?				
l. Who decides to report suspicious activities to the FIU?				

m. How many STRs have been sent to the FIU in the past 3 years, by year?				
n. Is there a policy to protect the employees if they, in good faith, report suspicious transactions?				
o. Are there administrative sanctions for employees that do not adhere to the monitoring and reporting policies and procedures? Have any been applied in the last 3 years?				
p. Does your financial institution have procedures to monitor accounts with frequent cash deposits and subsequent wire transfers of funds to another financial institution out of the country?				
<b>Average Rating</b>				
<b>Remarks</b>				
<b>6. Record Keeping</b>				
a. Is there a records retention policy? If so, what is it?				
b. How are records maintained? Paper, electronically, onsite, off-site storage?				
c. Can records allow for tracing transactions and provide a clear audit trail? Has this system been tested? If so, when and by whom?				
d. What are the security measures for record keeping?				

<p>e. Describe the procedures for accessing and retrieving AML/CFT related data. How long would it take to retrieve the information for a particular customer going back 5 years? Has this been tested?</p>				
<p>f. Has there been a request from the authorities (e.g., FIU) for customer data? What were the results?</p>				
<b>Average Rating</b>				
<b>Remarks</b>				
<b>Overall Rating</b>				
<b>General Remarks</b>				



# ECONOMIC RECOVERY & LIVELIHOODS PROGRAM (ERLP) – YEMEN

PROCEDURES FOR ANALYZING REQUESTS  
FOR ASSISTANCE FROM OTHER YEMENI  
AUTHORITIES

ANNEX II

June 2021

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## I. INTRODUCTION

In addition to the STR reports, the Financial Intelligence Unit “FIU” receives requests for assistance (RFA) from local and international bodies, and it also receives judicial letters received through the Yemeni judicial references, according to which the requesting party requests the FIU to provide it with information about the ongoing operations on the accounts of concerned banks and financial institutions and/or their clients.

Accordingly, the current procedures were prepared to assist the FIU of Yemen in analyzing RFAs, to be adopted for information exchange outside the Egmont Group.

### I. RFAs received from counterpart FIUs:

When the FIU receives an RFA, the following procedures shall be followed:

1. In the event that the request does not include all the basic information, especially the nature of the offense, the details of the reasons for suspicion and its relationship to money laundering, corruption, or terrorist financing operations, details of the names of suspects, details of the suspicious operations and their relationship to accounts opened with Yemeni financial institutions, the detailed information must be requested from the requesting FIU within one week from the date of receiving the RFA .
2. In the event that the RFA is accepted, the FIU will analyze it for preparation of taking one of the following decisions:
  - i. Informing the requesting body, within **a maximum period of one week** that the subject matter of its request falls outside the jurisdiction of the FIU, in the following cases:
    - Funds / operations that are not the result of one of the predicate crimes enumerated in Article (3) of Law No. (1) of 2010 or are not related to corruption.
    - Funds / operations of the subject matter of the request that took place before the date of the issuance of Law No. 1 of 2010
  - ii. Informing the requesting body, within **a maximum period of one week**, that the FIU has taken a decision not to respond to its request for the following reasons:
    - Lack of basic information to be provided in the request, despite repeated requests for such information.
    - Based on the principle of reciprocity in the event:
      - The inability of the requesting body to respond to similar requests from the Yemeni FIU in accordance with the memorandum of understanding signed with it.
      - Failure to respond to a similar request previously directed by the FIU in Yemen
    - The case in request concerns the state’s sovereignty, security, public order, or basic interests.
3. Informing the concerned authority, within **a maximum period of one week** that the FIU will wait to respond to the case until the signing of a memorandum of understanding between both FIUs.
4. With the exception of the cases enumerated in clauses (1,2,3) above, the FIU conducts its investigations regarding the accounts or information subject of the request, and takes one of the following decisions in their regard:

- In the event that the subject of the request is related to a specific bank account or transaction, and the results of the investigations reveal that there are no operations or accounts as mentioned in the request, the FIU takes a decision to inform the requesting body about the results of the investigation within **a maximum period of one month from the date of receiving the request.**

- In the event that the subject of the assistance request is related to a bank operation or an account and the results of the investigations reveal the existence of accounts or operations related to the request for assistance, it is up to the FIU to provide the requesting body with the information, within a **maximum period of one month from the date of receiving the request.** This information includes, for example, but not limited to:

- The name of the person subject of the request appears in the FIU's database (without mentioning the details if the source of the information was another FIU or a local bank, and this body did not give the FIU in Yemen the consent to share the information with other parties).
- The presence of any companies, real estate registered on the ownership of the name being sought.
- The name of the concerned person was not found on the database of law enforcement or judicial authorities.
- Travel history of the person from/to Yemen, if available.

## **II. A PROPOSED WORKING METHOD FOR INTERNATIONAL JUDICIAL APPEALS RECEIVED THROUGH THE YEMENI JUDICIAL AUTHORITIES**

### I. The role of the Public Prosecutor's Office when receiving international judicial appeal:

Upon receipt of a judicial appeal, the Public Prosecutor's Office examines the application in accordance with applicable international treaties and conventions and agreements of joint judicial cooperation, taking into account the principle of reciprocity and cooperation between states.

As a result of the study, a decision is made:

- To reject the request for judicial appeal for legal reasons such as the absence of a joint cooperation agreement or in accordance with the principle of reciprocity,
- To accept the request and start analyzing it.

While the request is processed, if the judicial appeal is found to be related to the crime of money laundering or financing of terrorism, the Public Prosecutor's Office makes one of the following decisions:

- a. If the elements of the money laundering offence provided in Law No. 1 of 2010 are not available, it is decided to process the application without providing the FIU with a copy of the file.
- b. If money laundering crime elements are available, it is decided to refer the file to the FIU with the identification of requests, the information required from the FIU.

### 2. The role of the Financial Intelligence Unit:

Upon receipt of judicial appeal by the Public Prosecutor's Office, the FIU will make one of the following decisions:

- a. The request will be rejected because of its incompetence if the required information was outside the scope of the FIU's powers specified in Law No. 1 of 2010 and its applied regulations, in such case the FIU sends its response to the Public Prosecutor's Office with the legal explanation on which it was based within **a maximum period of one week from the date of receiving the request.**
- b. Study the file and send requests to the banks and financial institutions to provide the required information and documents **no later than two weeks** from the date of receiving the FIU request.
- c. Analyze the information and documents that will be received from banks and financial institutions and send the result of the analysis and received documents to the Public Prosecutor's Office **within one month from** receiving the request from the Public Prosecutor's Office.
- d. If the information requested by the judicial appeal requires a request for assistance to a peer FIU, a letter will be sent to the Public Prosecutor's Office that the FIU in Yemen has sent a request for assistance to the peer FIU and the information shall be provided as soon as they are received.
- e. FIU of Yemen must follow up on the case with the public prosecutor's office to obtain a copy of its final decision in the case to update the FIU's database.

### **III. THE ROLE OF FIU IN DISSEMINATING INFORMATION**

Based on recommendation number 40 of the Financial Action Task Force (FATF) on international cooperation, the FIU is only obliged to share information only "**For Intelligence Purposes Only**" with its counterparts from the FIUs in general and the FIU's of the Egmont Group in particular.

Therefore, requesting documents that are subjected to bank secrecy act requires the follow-up of standard judicial procedures for the exchange of documents and evidence between States.



# ECONOMIC RECOVERY & LIVELIHOODS PROGRAM (ERLP) – YEMEN

## MOU ON THE COOPERATION AND EXCHANGE OF FINANCIAL INTELLIGENCE

### ANNEX 12

June 2021

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# MEMORANDUM OF UNDERSTANDING

Between

Financial Intelligence Unit of Yemen and

Financial Intelligence Unit of \_\_\_\_\_

## On the Cooperation and Exchange of Financial Intelligence Related to Money Laundering and Terrorism Financing

The **Financial Intelligence Unit of Yemen**, and the **Financial Intelligence Unit of**-----each hereinafter referred to as a "Party" or collectively as "The Parties", desire, in a spirit of cooperation and mutual interest, to cooperate with each other for the exchange of information concerning money laundering and terrorist financing in order to effectively prevent and combat money laundering, terrorist financing and related criminal activities.

The Parties agreed that this memorandum of understanding (hereinafter referred to as the "**Memorandum**") is a statement of intent and does not create any legally binding obligations on the parties or supersede domestic laws and regulations.

To that end, they have reached the following understanding:

1. The "Parties" will cooperate, on the basis of reciprocity, as outlined in Annex I, to exchange information in their possession concerning financial transactions suspected of being related to money laundering or criminal activities connected with money laundering and terrorism financing. To that end, the "The Parties" will exchange spontaneously or upon request any available information that may be relevant to the investigation by the Parties into financial transactions related to money laundering and terrorism financing and the persons or companies involved. Any request for information will be justified by a brief statement of the underlying facts including at a minimum the reason for the request, the purpose for which the information will be used and enough information to enable the receiving Party to determine whether the request complies with its domestic laws, regulations and the international laws.
2. (a) The information or documents obtained from the respective Parties will not be disseminated to any third party, nor be used for administrative, prosecutorial or judicial purposes without the prior written consent of the disclosing "Party".  
  
(b) If a Party is subject to legal process or proceedings that would require the disclosure of information it has received from the other Party, the Party subject to such process or proceedings will immediately notify and seek the express consent of the other Party to disclose the information.

3. The Parties will not permit the use or release of any information or document obtained from the respective Parties for purposes other than those stated in this Memorandum, without the prior written consent of the disclosing Party.
4. The information acquired in application of the present Memorandum is confidential. It is subject to official secrecy and is protected by at least the same confidentiality as provided by the national legislation of the receiving Party. The confidentiality obligations under this Memorandum shall continue to bind the Parties notwithstanding the termination of this Memorandum.
5. Where the requested Party desires feedback on how the information it provided was used, it shall request this explicitly. When the requesting Party is not able to obtain this information, it should reply stating the reasons why the requested feedback cannot be provided.
6. The Parties will jointly arrange, consistent with the legislation of their respective countries, for acceptable procedures of communication and will consult each other with the purpose of implementing this Memorandum.
7. Communication between the Parties should take place in English. Request for information will be submitted in writing, through ESW or by Fax, or by Email
8. The Parties are under no obligation to give assistance if:
  - (1) Judicial proceedings have already been initiated concerning the same facts as the request is related to and the assistance would impede in any manner these judicial proceedings.
  - (2) Such assistance could threaten state security, public order and the essential interests of the Parties' jurisdictions, or contradict the domestic laws, regulations or the international laws.If any Party refuses to execute the request for information it shall inform the other Party of the reasons for such refusal.
9. Any dispute or difference arising out of the interpretation or application of the provisions of this Memorandum shall be settled amicably through consultation between the Parties.
10. This Memorandum may be amended at any time by mutual consent.
11. This Memorandum is revocable at any time. The termination will become effective as from the reception of the written notification from the other Party. However, any request for assistance made prior to the aforementioned notice termination shall be honored by the Parties under the terms of this Memorandum of Understanding.
12. This Memorandum will become effective upon its signature by the Parties.

Signed in the English language (this English text being the agreed authentic text, and each party taking the responsibility for establishing translation in their own language).

**On behalf of FIU -Yemen**

**On behalf of FIU-**

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---

**Date**

**Date**

**Place**

**Place**

## ANNEX I

Information for exchange on the basis of reciprocity			
Type of Information	Yes	No	Remarks
• FIU			
1. Information and FIU analytical reports on physical & legal persons available in the FIU database			
2. Suspicious Transaction Reports [STRs], Requests of Assistance [ROAs] & Spontaneous Disclosures (if authorized by the issuing FIU) received by the FIU			
3. Preventive measures (suspension, freezing etc.)			
• Financial Institutions			
4. Customer accounts data, including identity data & KYC			
5. Customer transactions data			
6. Customer transactions analysis			
7. Nature and description of business relationship			
• Law Enforcement			
8. Citizenship records & passport details			
9. Law enforcement records (before court trial)			
10. Criminal records (convictions)			
11. Records of confiscated property			
12. Border crossing information			
13. Travel Visa Records			
• Customs			
14. Records on Export- Import of goods			
• Financial Regulators			
15. Banking licenses and compliance reports			
16. Insurance & reinsurance licenses and compliance reports			
17. Stock Market licenses and compliance reports			
18. Money Remittance licenses and compliance reports			
19. Currency Transaction licenses and compliance reports			
20. Gambling licenses and compliance reports			
21. Civil & administrative measures			
• Tax Authority			
22. Income & taxes filings			
23. Penalties & tax criminal records			
• Real Estate Register			
24. Land/property ownership records			



• Company Register			
25. Company registers (existence, good standing, bankruptcy etc.)			
26. Trustees, directors, members of companies			
27. Legal owners of companies			
• Vehicles Register			
• Social Security			
28. Social Security Information			

	Yes	No	On a case-by-case basis
29. Dissemination of the information to law enforcement and/or judicial authorities for intelligence purposes only			
30. Dissemination of the information to judicial authorities to be used as evidence in any judicial proceedings			



# USAID ECONOMIC RECOVERY AND LIVELIHOODS PROJECT (ERLP) IN YEMEN

## REVENUE POLICY AND ADMINISTRATION - REPORT ON REGULATORY REFORMS DESIGNED TO IMPROVE THE NATURAL RESOURCE REVENUE REGIME

Annex 13

June 2021

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## LIST OF ACRONYMS

CapEx	Capital Expenditures
CBY	Central Bank of Yemen
CIT	Corporate Income Tax
ERLP	Economic Recovery and Livelihoods Project in Yemen
EU	European Union
GDP	Gross Domestic Product
GOY	Government of Yemen
GST	General Sales Tax
IMF	International Monetary Fund
MFW	Ministry of Fish Wealth
MOA	Ministry of Agriculture
MOF	Ministry of Finance
MOSA	Ministry of Social Affairs
OECD	Organization for Economic Cooperation and Development
OpEx	Operating Expenditures
PIT	Personal Income Tax
PSA	Production Sharing Agreement
SME	Small and Medium-sized Enterprises
SOE	State Owned Enterprise
UAE	United Arab Emirates
USAID	United States Agency for International Development
USD	United States Dollar
YER	Yemeni Rial

## INTRODUCTION

1. At the request of the Ministry of Finance (MOF), the ERLP Fiscal Team evaluated the revenues from natural resources, including the oil and the fisheries sectors in the Republic of Yemen, to make recommendations on improving revenues. This evaluation, built on an in-depth analysis of the current revenue regimes in the oil sector and the fisheries sector, was summed up in a detailed report entitled, *Report on the Recommendations for Revising the Natural Resource Extraction-based Revenue*, submitted to the MOF in May 2021. It contained specific recommendations on reforms needed in the two natural resource sectors to improve revenue mobilization and fiscal transparency.
2. This present report lays out the follow-up guidelines needed to achieve the objectives of those recommendations. It starts with a synopsis of the current revenue regimes in the natural resource sector and follows actions on the recommendations contained in the earlier report.

## OUTLINE OF THE REVENUE REGIMES IN THE OIL AND FISHERIES SECTORS

3. As a minor oil-exporting country with dwindling oil resources, Yemen will need to explore more effective ways to mobilize its domestic resources. From 70 percent of government revenues in the pre-conflict era, oil revenues now account for just 54 percent. According to projected production for CY 2021, the total production of oil is expected to reach a total of 25 million barrels, compared to around 22 million barrels in 2020 and 19 million barrels in 2019. Total oil revenues are estimated to reach USD 1,140 million in budget CY2021.
4. Currently, Yemen has seven petroleum projects. Two projects are owned and operated by state-owned enterprises (SOEs), and the other five are privately owned and operated. Some private fields are partially owned by SOEs.
5. The fisheries sector is the second most important sector accounting for about 15 percent of Yemen's GDP. It provides a crucial source of employment and food security for hundreds of thousands of coastal households. The fisheries industry also comprises a significant source of foreign exchange earnings. However, it has suffered from a series of institutional and market-linkage constraints that severely inhibit competitiveness and income generation opportunities.<sup>1</sup>
6. Yemen's fisheries sector relies on small-scale, labor-intensive artisanal fishing. They use unsophisticated technology with no processing equipment on board, except for salting, drying, and preserving fish. Fishing communities are highly dependent on the services provided by several external actors - cooperatives, auctioneers, traders, transporters, and retailers.
7. Annual fish production is estimated at between 150,000 and 250,000 tons. About 40 percent to 50 percent of production is exported, mainly to Saudi Arabia, Egypt, Oman, UAE, and Jordan. About 20 processors have export licenses to the EU, and just two have FDA approval for exporting to USA

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<sup>1</sup> USAID (2019). "The Fisheries Sector in Yemen: Status and Opportunities". Prepared by the Middle East Economic Growth Best Practices Project - Pragma Corporation, USA. 2019.

markets. Yemeni seafood is also exported to Asia (Thailand, China, and Vietnam). The total value of Yemeni seafood exports in 2019 was US\$ 14 million.

8. Revenue compliance in Yemen is very low, even by regional standards. As an example, there are only 51 registered taxpayers in the services sector and 167 in trade. Lucrative professions practically escape the General Sales Tax. Compliance is almost negligible outside Aden. The same is true with the level of adherence to the Fishing Law of 2006. Although Article 17 of the Fishing Law stipulates a 3 percent resource rent on the value of fish sold/auctioned at landing sites, fishermen have not paid this levy since 2012.

## **OIL SECTOR REVENUE REGIME**

9. There are two regimes for oil revenue in Yemen: one for the SOE projects, which are under the supervision of the Yemen Oil and Gas Corporation, and the other for privately owned projects (both foreign companies and jointly owned). The revenue regime for the two SOE projects (Petro Masila and SAFER) is relatively direct. All sales revenue goes to the government, and all costs are covered by the government. More than 70 percent of government's oil revenue comes from the two SOEs.
10. The government revenues from each privately-owned project involve a different regime. The government receives revenue from three sources: (a) royalty payments; (b) a share of "profit oil"<sup>2</sup>; (c) and a share of project profits (for the jointly owned projects). Rates for each type of payment differ according to the terms of the Production Sharing Agreement (PSA) for each project. Profit-sharing represents around 98 percent of government revenue from the oil sector, while royalties account for only 2 percent.

## **ROYALTY REGIME**

11. The two SOE projects are not subject to any royalty arrangements in Yemen. The private companies pay royalties at different rates, determined by the PSA for each company. The rates vary from 3 percent to 10 percent of the gross income realized by each company. The gross income is the total production multiplied by the sale price (crude oil Brent price). In the Budget for CY2021, royalty receipts are expected to be USD 36.6 million compared to USD 11.7 million in 2020, largely due to the increased production.

## **PRODUCTION SHARING REGIME**

12. The PSAs specify the government's share of "profit oil" that companies pay to the budget. The government's percentage varies according to the projected production level from each project. Profit oil is calculated after deducting from the gross oil revenue, first the royalty paid, and then the operating expenses (OpEx) and capital expenses (CapEx). Each PSA imposes limits on the OpEx and CapEx that can be deducted. The government's share also varies according to the level of expected production, designated in tranches 1 to 6. Each subsequent tranche represents a higher level of

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<sup>2</sup> Oil companies bear the mineral and financial risk of prospecting and exploration and then develop and ultimately produce the field. When successful, the company is permitted to use the money from produced oil to recover capital and operational expenditures, known as "cost oil". The remaining money is known as "profit oil".

output from a particular oilfield. The higher the tranche, the higher the government's share of profit oil. Currently, the production level of all fields is in tranche I.

### REGIME FOR JOINTLY OWNED PROJECTS

13. Currently, there are three projects that are jointly owned by foreign companies and national partners. For these projects, the national oil share is calculated as a percent of the national contractor's share. This share is computed after deducting the government's share of "profit oil."

### OTHER TAXES

14. All oil extraction companies in Yemen are exempt from corporate income tax (CIT), implying that the PSAs include elements of both resource rent and income taxation.

### FISHERIES SECTOR GOVERNANCE AND REVENUE REGIME

15. The MFW oversees the policy management of Yemen's fish resources. Four semi-independent Regional Fisheries Authorities are the implementing agencies. There are about 70 active cooperatives in Yemen's six coastal governorates. Cooperatives are registered and supervised by the MFW. The war has depleted the financial resources of the cooperatives, which are derived from membership fees and commercial exploits. Many members refuse to pay their membership fees, reducing their support due to budgetary constraints. They also suffer from inadequate administrative structures, lack of good governance, and limited numbers of dedicated and qualified staff.

### REGIME FOR RESOURCE RENT

16. Article 17 of the Fishing Law of 2006 stipulates that a resource rent of 3 percent of the value of the fish sold/auctioned at landing sites be paid to the state. Article 18 of the law provides for a service charge of 5% of the sales value of seafood sold at the landing site, to be allocated as follows:
  - 1% for the owner of the landing site (MFW or fishermen's cooperative)
  - 2% for the auctioneer
  - 2% for the cooperative in which the fisherman is a member.
17. There is no effective enforcement of Fishing Law 2/2006. Before the conflict started, fishermen were paying 8 percent of the value of their catch that required is due under the law. With the onset of war, they stopped paying the 3 percent owed to the state, though they continue to pay part of the remaining 5 percent to the landing site owner, auctioneer, and cooperatives. The sector is plagued by rampant corruption along the value chain.

### REGIME FOR EXPORT

18. There is an annual export license fee of YER 100,000-200,000 for licensed exporters and supplementary lab testing fees. The MOF also levies an export fee/tax at the following rate: (i) YER 15/kg of fresh fish; (ii) YER 5/kg of frozen fish; (iii) YER 12-15/kg of fish fillets; (iv) YER 150/kg of fresh lobsters; and (v) YER 100/kg of frozen lobsters. The export licensing and fee/tax represent the only sources of revenue from the fisheries sector. In addition, the production of large fishing vessels is taxed 20% to 25%, but this tax has not been enforced since 2015.

## REGIME FOR ACCESS FEE FOR FISHING IN YEMENI WATERS

19. There is no regime for access fees or license fees for foreign trawlers that may be operating in Yemen's exclusive economic zone. Although the Yemeni Coast Guard patrols the coastal waters and try to prevent illegal fishing by foreign trawlers, their resources are limited, and their surveillance efforts are not very effective. The MOF has no data on the number of domestic and foreign companies operating in the coastal economic zone of Yemen.

## RECOMMENDATIONS ON TRANSPARENCY AND RESOURCE MOBILIZATION

20. Based on an in-depth analysis of the current revenue regimes in the oil and the fisheries sectors, specific recommendations on regulatory reforms needed in the natural resource sector were made in the detailed report entitled, Report on the Recommendations for Revising the Natural Resource Extraction-based Revenue. These recommendations focus on improving revenue mobilization and fiscal transparency in the oil and fisheries sectors.
21. The recommendations looked at the primary considerations for regulatory reform and the policy options that were the most viable and practical to implement from an institutional readiness and policy viability perspective. Further detailing of our recommendations based on follow-up collaborative outreach discussions and information-sharing with relevant institutional stakeholders is provided below.

## MAIN CONSIDERATIONS FOR REGULATORY REFORMS IN THE OIL REVENUE REGIME

22. Revenues from oil extraction have significant macroeconomic implications. Revenue objectives are an essential consideration in designing fiscal regimes for the oil sector but involve complex trade-offs. Generating employment in related activities, and addressing environmental impacts, can be significant concerns, but the revenue from oil is often the main benefit to the host country. It is based on the notion of resource rents for the underlying resource.
23. The importance and complexity of petroleum operations are matched by the importance and complexity of finding effective ways to tax them. The exhaustibility of deposits in the oil sector has led to a proliferation of innovative instruments. The challenges of tax design issues include dealing with time (long term commitment), uncertainty (especially in a conflict zone or a fragile state), time consistency (the 'obsolescing bargain'<sup>3</sup>), asymmetric information, and international question focusing on transfer pricing and profit shifting.<sup>4</sup> Governments that are highly dependent on a few oil fields may face a more acute time consistency problem than those with prospects for further exploration

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<sup>3</sup> The "obsolescing bargain model" stipulates that the initial bargain favors the foreign investor, but relative bargaining power shifts to the host country government over time as the investor's assets are transformed into sunk cost. Once bargaining power shifts from the foreign investor to the host country, the government imposes more conditions on the MNE, ranging from higher taxes to complete expropriation of assets.

<sup>4</sup> Boadway, Robin and Michael Keen (IMF 2008). *Theoretical Perspectives in Resource Tax Design*; in *Taxing Natural Resources: New Challenges, New Perspectives*, IMF paper. September 2008.



and development. Low-income countries may reasonably be expected to discount the future more heavily.

24. No single system is suitable for all countries and all circumstances. Most oil fiscal regimes around the world typically employ a mixture of royalties and income-based levies. This mixture affords a balance of protection against financial risks to governments as well as foreign investors. Other critical features include the accrued credibility of the government, the survival prospects of the incumbent regime, perceptions of national (and subnational) sovereignty, the proper choice of the oil revenue regimes, and the respective roles and design of royalties and rent capture, turn critically on considerations of political economy.<sup>5</sup>
25. Over the decades, the balance has shifted away from royalties toward the use of levies based on net income. However, there is a greater vulnerability of income-based measures to taxpayer avoidance through transfer pricing. If a foreign company succeeds in understating the fair market value of its extracted product, the government's revenue losses under a royalty might be negligible. In contrast, the government's revenue losses under an income-based tax are likely to be much more severe because companies frequently overstate deductible expenses, including intragroup technical and management fees and interest paid on loans from related parties. These will not affect the government's take under a gross-income-based royalty but can severely reduce revenues under income-based taxes.<sup>6</sup>
26. Even though the obligation to respect contracts is vital, renegotiations do and sometimes should occur. Re negotiation can be warranted when the terms become seriously out of line with international practice. No contract can anticipate all conceivable outcomes. When this happens through consultation or by mutual agreement, the investment climate may be strengthened rather than weakened. In contract schemes, provisions for periodic reviews are increasingly common, and GOY should consider including a renegotiation clause in future PSAs.

## **RECOMMENDATIONS FOR YEMEN'S OIL REVENUE REGIME**

27. In all its PSAs, Yemen employs a mixture of royalties and income-based levies, as is standard practice. However, about 98 percent of oil revenue is income-based, derived from the government's share of "profit oil." Only 2 percent is derived from royalties. As a result of these income-sharing agreements, oil companies are exempt from CIT, implying that GOY's profit share, in principle, includes elements of both resource rent and income taxation.
28. For the entirety of the oil revenue regime, the GOY is locked into long-term PSAs, separate for each foreign investor, which will be extremely difficult to revoke. We do not recommend going back on these agreements. The transparency, stability, and credibility of the fiscal regime is essential.

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<sup>5</sup> Boadway, Robin and Michael Keen (IMF 2008). *Theoretical Perspectives in Resource Tax Design*; in *Taxing Natural Resources: New Challenges, New Perspectives*, IMF paper. September 2008.

<sup>6</sup> Readhead, Alexandra (2016). *Preventing Tax Base Erosion in Africa: A Regional Study of Transfer Pricing in the Mining Sector*. National Resource Governance Institute (UK). July 2016.

However, provisions for periodic reviews are increasingly common in new PSAs, and the GOY should consider including a renegotiation clause in future PSAs.

29. As mentioned earlier in the report, greater reliance on income-based levies, brings serious, intractable, administrative difficulties. The measurement of an investor's net income is far more complex and prone to taxpayer avoidance through transfer pricing than measurement of the fair market value of extracted oil. This is especially true in a country with low administrative capacity to handle complex international transactions, which may lead to transfer pricing issues.
30. Our main recommendation, that can be implemented relatively soon, is for the GOY to receive administrative training in transfer pricing rules to improve its enforcement abilities under income-based taxes. The ELRP fiscal team could support building capacity in the Ministry of Oil and Mines and the Tax Authority in this very critical area. Training could also include exposure to innovations on the model of "administrative pricing" or "norm pricing" for expenses. For instance, Norway has succeeded in the administration of its North Sea oilfields.<sup>7</sup>
31. For future oil concessions, we recommend that the GOY avoid fiscal instruments that rely excessively on income-based levies, as the loss of revenues from noncompliance appears more serious than any incremental benefit of income-based taxes in terms of greater economic efficiency.
32. Even in the case of royalties, GOY levies fixed royalties that vary from 3 percent to 10 percent, depending on project. Many countries use royalties that are "progressive," ( i.e., the royalty rates increase with increase in market prices) to capture windfall profits when oil prices are high.<sup>8</sup> We recommend that, for future oil concessions, GOY should not only place greater reliance on royalties but also on royalties that are progressive in structure.

## **CONSIDERATIONS FOR REGULATORY REFORMS IN THE FISHERIES REVENUE REGIME**

33. Fish are natural resources that belong to the country in general and the coastal community in particular. For this resource to be renewable, providing ecological sustainability into the future is critical to ensure that the seaside community continues to receive fishing revenues on an ongoing basis. The fisheries sector is notoriously vulnerable to overfishing, and the "tragedy of the commons" looms large, where there is almost open access to a resource unhampered by shared social structures.
34. The first step for Yemen is to recognize these are not temporary windfall revenues but an ongoing feature of their own-source income. Most countries charge a resource rent for this natural treasure so that the community can benefit from it. Alaska, for instance, levies a Fishery Resource Landing Tax on fishery resources processed outside the 3-mile limit and first landed in Alaska. Yemen has a 3 percent resource rent in its law, but this has not been enforced since the war started.

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<sup>7</sup> Readhead, Alexandra (2016). *Preventing Tax Base Erosion in Africa: A Regional Study of Transfer Pricing in the Mining Sector*. National Resource Governance Institute (UK). July 2016.

<sup>8</sup> Ibid.

35. Fisheries Business Tax is another instrument levied on businesses that process or export fisheries resources, e.g., in Alaska. The tax is collected primarily from licensed processors and exporters and is based on the price they pay to commercial fishermen.
36. Many countries maximize their incomes from fisheries through access rights fees and license charges. These fees are levied on foreign fishing vessels, since valuing catches by vessels that do not touch local ports is difficult. For example, Pacific countries impose a benchmark charge of USD 8,000 per day per vessel. Foreign fishing access annually generates approximately USD350 million to USD 400 million for the 22 Pacific Island countries and territories.
37. All types of export taxes reduce the volume of exports and are therefore a form of export restriction while implicitly subsidizing the use of natural resources in domestic value addition activities. When a country possesses a degree of monopolistic power in the international market for a particular commodity, an export tax levied on the good in question can improve the country's terms of trade, that is, the relative price of a country's exports<sup>9</sup>. That is not the case with Yemen.

## **RECOMMENDATIONS ON FISHERIES REVENUE FOR YEMEN**

38. Yemen does have a regime for collecting resource rent for the marine natural resource, i.e., fisheries. However, the resource levy and the production tax on fishing vessels have not been enforced since 2012 because of poor regulation and law enforcement, high rates of corruption, and conflict-induced insecurity.
39. Our recommendations focus at a practical level on bolstering administrative efforts to improve compliance with the law. We recommend that, since it is challenging to enforce collection of the resource rent from individual fishermen, this resource rent should be withheld by the auctioneer, on behalf of the GOY, when making payment for the catch to the fishermen. Auctioneers have greater market power and are locationally fixed. Regulations can require the auctioneers to be the withholding agent for the state. Withholding taxes have been a tested method for improving compliance.
40. Our next core recommendation is to improve enforcement of the tax on the production of large fishing vessels through well-targeted and enforceable administrative measures. There are just a few manufacturers of fishing vessels. Focused discussions should be held to reach an agreement to achieve greater compliance, with consideration given to a rate reduction for compliant manufacturers and prosecution of non-compliant ones.
41. We also recommend that MFW set up a mechanism for charging fishing access rights fees and license fees for foreign vessels conducting fishing activities in the Yemeni waters. These fees should be based on the expected catch per day, with a minimum per day fee per vessel, to safeguard revenue and prevent understatement by the fishing companies.
42. As regards the existing export fee, we recommend that the phasing out of export taxes. Export taxes should, at best, be a temporary source of revenue. Currently, in the absence of any other stable source of revenue from this sector, the export tax and export license fee are the only

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<sup>9</sup> Piermartini, Roberta. *The Role of Export Taxes in the Field of Primary Commodities*. World Trade Organization Geneva, Switzerland. 2004.

revenues received from this sector. Phasing out of export taxes will require the specification of an exact timetable, as the recommended measures – (i) resource rent withheld through auctioneers and (ii) access right fees from foreign vessels become revenue yielding. Export taxes have been effective only if a country has a monopolistic advantage in the exported commodity and the commodity is a price-setter. This fact is not the case with Yemen's fish export. On the contrary, an export tax lowers the export competitiveness of Yemen in the market for fish and reduces its export receipts.

## **GUIDELINES ON MEASURES FOR IMPLEMENTING THE PROPOSED RECOMMENDATIONS**

43. The following is the summary of recommendations to be implemented in the near term (finalization of revised guidelines in Q4, with implementation during the remainder of CY 2021) for improving transparency and resource mobilization in the oil and fishing sectors:

### **OIL SECTOR**

- a. Training revenue officials in the Ministry of Oil and Mines and Tax Authority in transfer pricing rules to improve its enforcement abilities under income-based taxes.
- b. For future oil concessions, ensure that PSAs provide a balanced approach to royalty and income-based levies and are not excessively income-based levies. Moreover, to capture windfall gains, GOY should change from fixed royalties to progressive royalties.

### **FISHERIES SECTOR**

- a. Require the 3 percent resource rent to be withheld by the auctioneer, as agents of the GOY, instead of being collected from the fishermen. The MFW can promulgate regulations to require auctioneers to withhold the resource rent. This will also require near-term development of practical procedures for withholding and some capacity building for the auctioneers to implement the new system.
  - b. Develop a practical mechanism to enforce fishing access fees and fishing rights fees from foreign vessels conducting fishing activities in the Yemeni exclusive economic zone.
  - c. Improve enforcement of the tax on the production of large fishing vessels. To achieve greater compliance, consider a rate reduction for compliant manufacturers and prosecution of non-compliant ones.
  - d. Mandate a phase-out of current export taxes, including specification of an explicit timetable for their removal.
44. The ERLP team will again provide near-term support for finalizing and galvanizing early-stage implementation of the revenue policy and administrative reform measures enumerated above.

## **SUPPORT FOR IMPLEMENTATION OF RECOMMENDATIONS ON OIL SECTOR**

45. This will include a detailed analysis of transfer pricing guidelines; focused on examining the incidence of transfer in the determinations of expenses for arriving at the "profit oil" that is shared between the GOY and the private oil extraction company. It will also entail reviewing the current regime for regulating transfer pricing to determine "profit oil." This will lead to the development of practical solutions for reforming the regime determining the deductibility of international transactions with related parties, in line with international best practices in the area. These activities will also entail building capacity in the Tax Authority to ensure that selected enforcement officials of the Ministry of Oil and Mines and the Tax Authority are trained to deal with international transactions that give rise to transfer pricing issues.
46. The specific activities that ERLP experts will carry out in this area include the following:
- a. Review the role of transfer pricing in determining profit oil in Yemen and the current regime for regulating these issues.
  - b. Propose specific changes in the transfer pricing regulations to improve the regime for determining the deductibility of international transactions with related parties, applying best practice in transfer pricing principles in a manner that mitigates related revenue leakage risks.
  - c. Develop and provide relevant training materials and build capacity in transfer pricing enforcement for a select group of officials.

## **SUPPORT FOR IMPLEMENTATION OF RECOMMENDATIONS ON FISHERIES SECTOR**

47. To support the GOY and the MFW in implementing the recommendations made in this report with regards to improving resource mobilization in the fisheries sector, ERLP will work with the MFW and MOF to develop viable and practical solutions for improving resource revenues from the fisheries industry in the following areas:
- a. Recovery of the 3 percent resource rent due to the GOY under Article 17 of the Fishing Law 2/2006. The expert will assist in developing a withholding mechanism requiring auctioneers to collect resource rent from fishers at the time of sale/auction of the catch. Alternatively, a mechanism can be developed to collect the resource rent from the cooperatives with which the fishermen are affiliated.
  - b. Develop a practical mechanism for developing a regime of license fees or access fees for foreign trawlers operating in Yemen's Exclusive Economic Zone to prevent illegal fishing by foreign vessels. This effort may involve facilitating discussions with coalition partners to agree on the mechanism for enforcing the access fee.
48. Specific activities in this area will include the following:
- a. Develop solutions for reinstating the collection of the resource rent required legally from fishermen through a system of withholding tax collected at source, on behalf of the GOY, by auctioneers, or from the fishing cooperatives.
  - b. Propose legislative changes to introduce a system of resource rent withholding by auctioneers/cooperatives.

- c. Propose interim workaround solutions to designate auctioneers/cooperatives as withholding agents pending changes in the law.
  - d. Provide technical support to the MFW to implement the targeted withholding mechanism.
  - e. Develop a mechanism for effective enforcement to prevent illegal fishing by foreign trawlers in Yemeni waters.
  - f. Design draft rules and agreement documents for access rights to foreign trawlers.
49. Regulatory reform provisions in these areas are expected to be implemented in these areas by the end-year CY 2021.



# USAID ECONOMIC RECOVERY AND LIVELIHOODS PROJECT (ERLP) IN YEMEN

Revenue Policy and Administration - The Basis for The Draft VAT Legislation: A Report on VAT Policy Parameters Discussed with MOF and Tax Authority

Annex 14

June 2021

publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government



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## Abbreviation and Acronyms

CBY	Central Bank of Yemen
ERLP	Economic Recovery and Livelihoods Project in Yemen
EU	European Union
GCC	Gulf Coordination Council
GDP	Gross Domestic Product
GST	General Sales Tax
IMF	International Monetary Fund
MOF	Ministry of Finance
OECD	Organization for Economic Cooperation and Development
PIT	Personal Income Tax
SAR	Saudi Arabian Rial
SME	Small and Medium-sized Enterprises
TADAT	Tax Administration Diagnostic Assessment Tool
USAID	United States Agency for International Development
USD	United States Dollar
VAT	Value Added Tax
WB	World Bank
YER	Yemeni Rial

## Introduction

At the request of the Ministry of Finance, the ERLP Fiscal Team conducted an evaluation of the current Sales Tax System in Yemen during April - May 2021. This evaluation was followed by developing a short to medium-term action plan for the transition towards a full-fledged VAT system.

ERLP is proposing a two-year time-framed game plan for the transition towards a full-fledged VAT system, starting with its implementation for large taxpayers as soon as the law is passed. This plan draws upon key features of VAT systems applied in more than 160 countries worldwide, including some countries from the GCC and the MENA region.

This roadmap for the transition towards a full-fledged VAT system was discussed jointly with the Yemeni authorities and the Tax Authority. The roadmap covers the draft legislation and policy framework, in addition to development of administrative regulations and procedures and providing capacity building and trainings. The roadmap consists of 8 phases to be implemented simultaneously from July 2021 till January 2023 (Roadmap in Annex I).

The main objective of this report is to develop and present the outcome of the first phase of the VAT implementation roadmap. Phase 1 consists of discussing the main policy parameters with the main stakeholders, including the Ministry of Finance and Tax Authority, which will form the basis for drafting the VAT legislation that should take place in Phase 2 during the next quarter.

The policy parameters culminate several rounds of consultations conducted remotely with senior staff from the Ministry of Finance (MOF) and the Tax Authority; including Mr. Naji Jaber and Mr. Taha Said, from the Revenue Department at MOF, and Mr. Awad Ahmed, Head of the Tax Authority. The meetings aimed to: (a) better understand the economic and policy context in Yemen and assess the existing challenges facing the Tax Authority; (b) present the recommendation made by the ERLP team for each policy parameter and explain the rationale behind every recommendation; (c) gather available data on value of sales, inputs-tax deductions, and compliance rates; (c) identify the core reform priorities targeted by MOF and the Tax Authority and agree on the parameters which will form the basis for the legislation.

Based on the discussions with the authorities that took place during May-June 2021, ERLP agreed with the Ministry of Finance and Tax Authority on the five key policy parameters: determining the VAT registration criteria, registration threshold, tax rates, exemptions, and tax deferral for raw material and capital goods. This agreement was based on good international practices, especially in MENA and GCC regions, and considering the current situation in Yemen.

## Context

1. Yemen, a low-income, in-conflict country, amid an ongoing economic and humanitarian crisis, now faces the challenge of dealing with the global COVID-19 pandemic. Real GDP contracted by 5.0 percent in 2020, according to IMF estimates, and is expected to grow by 0.5 percent in 2021.<sup>1</sup> Despite the very difficult conflict situation, and economic contraction, maintaining some semblance of fiscal sustainability and stability is critical for the Government of Yemen.
2. Yemen's non-oil tax revenue (including Customs) is very low and accounts for 2.3 percent of GDP (YER 418 billion), compared to an average of around 17 percent of GDP for middle-income developing countries. Based on ERLP's estimates, total tax revenues (excluding customs) are expected to reach YER 280 billion or 1.6 percent of GDP in 2021 (Table 1).

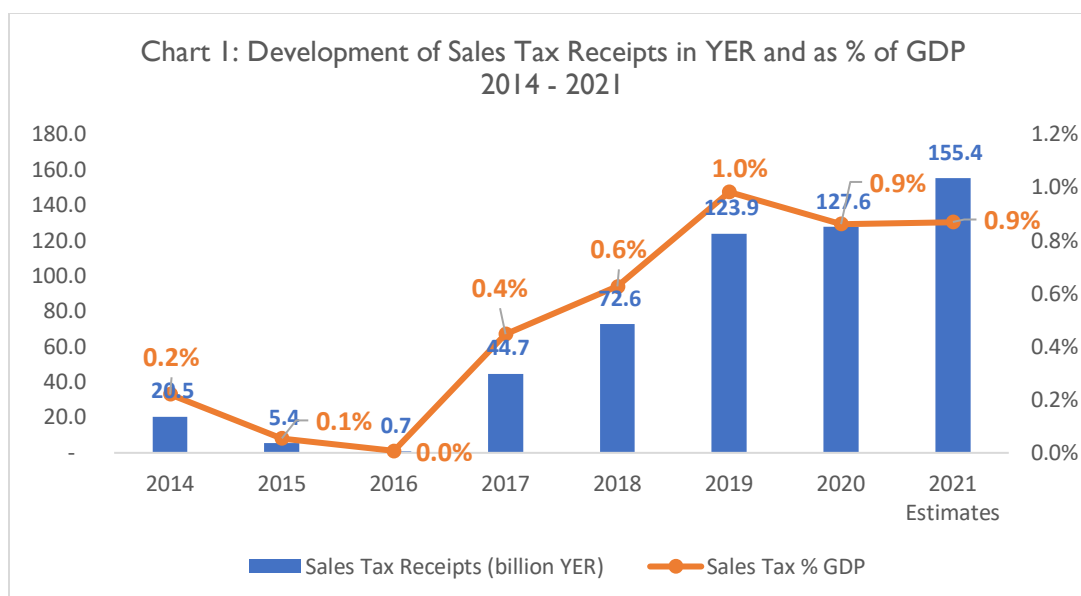
**Table 1: Summary Table of Non-oil revenues in YER billion**

	2019 ACTUAL	2020 ESTIMATES	2021 FORECAST
<b>Total non-oil revenues, of which</b>	443.4	600	758
<b>Total domestic taxes</b>	221	230	280
Central government account taxes	221	224.8	273.7
Income taxes	97	97	118
General sales tax	124	127.6	155.4
Other taxes	0	0.4	0.5
Local account tax receipts		0.6	0.7
Common account tax receipts		4.8	5.8
<b>Customs</b>	97	115.3	137.7
<b>Dividends, sale of crude oil and gas, grants</b>	48	248	333
Grants	48	94	148
Other revenues	78	6.2	7.5
<b>Memo: GDP current prices)</b>	<b>12,614</b>	<b>14,812</b>	<b>17,864</b>
	(World Bank data)	(ERLP estimate)	(ERLP estimate)

Source: ERLP team estimates

3. General Sales Tax (GST) in Yemen represents 23 percent of total non-oil revenues (including customs for the last three years. GST receipts accounted for around 1 percent of GDP but, according to ERLP estimates, are expected to decline to 0.9 percent of GDP in 2020 and 2021-- although in nominal terms, there is an expected increase from YER 124 billion in 2019 to 155 billion in 2021 in nominal terms. (Chart 1).

<sup>1</sup> IMF (2020). *World Economic Outlook, October 2020*



- As a minor oil exporting country, the most important sector of the economy is dwindling oil extraction, which used to account for around 70 percent of government revenue in the pre-conflict era, but the decreasing demand for oil due to the pandemic related economic slowdown reduced this source of revenue in 2020. According to ERLP estimates, oil revenues are estimated to reach YER 887.5 billion in 2021 (While latest projections indicate that oil prices will hover around USD 50-60/barrel during 2021-22, global demand for oil is expected to decline in the medium to long term, with greater emphasis being placed on clean energy).
- Tax compliance in Yemen is very low by regional and international standards (see Table 2). The filing compliance rate recorded 42.2 percent for the first six months of 2020, with the service sector registering the lowest level at a compliance rate of 15.7 percent. There are only 51 registered taxpayers in the services sector and 167 in trade, approximately half of these from Aden. In effect, accountants, lawyers, architects, and other lucrative professions practically escape the GST.

**Table 2: Number of taxpayers, GST returns, filing compliance rate, (January - June 2020)**

Governorate/Sector	Total			
	Registered Taxpayers	Expected Tax Returns for Six Months	Actual Tax Returns	Compliance Rate %
Manufacturing	85	510	299	58.2
Trade	167	1002	421	42.0
Service	51	306	48	15.7
<b>Total</b>	<b>303</b>	<b>1818</b>	<b>768</b>	<b>42.2</b>

Source: Tax Authority Yemen

6. Fiscal policy and revenue administration reform is a critically important prerequisite for sustainable post-conflict recovery. It brings with it a host of distributional, efficiency, and political economy dimensions that the Yemeni government and society are grappling with. International experience in many transitional contexts suggests that effective fiscal management can have significant impact on peace and post-conflict reconstruction. Distortions created by the fragmentation of institutional capacity in the Central Bank of Yemen (CBY) and other government agencies, including the Ministry of Finance and the Tax Authority, have further compounded the crisis.
7. However, tax collection and revenue administration improved over the course of the year 2020. This improvement has included a series of administrative reforms in the customs area, which have been implemented by the Yemeni government over the past few years with significant ERLP technical/training support. For instance, the Customs Authority has, with ERLP technical/training support, implemented several key administrative changes designed to streamline customs clearance procedures, increase manpower capacity at ports, and finetune its risk management policies and inspection practices.

## Agreed VAT Key Policy Parameters

8. The main conclusion of the recent evaluation of the current sales tax system in Yemen was that, to boost non-oil domestic revenue in the medium term, the authorities in Yemen should transition in a time-effective manner to a full-fledged VAT regime. This, in turn, has yielded a very positive impact on domestic resource mobilization across many countries.
9. It is equally important to recognize that while VAT will generate higher revenues for the government, it will also raise the compliance cost for businesses, at least in the near term. Therefore, the implementation of a VAT structure should be accompanied with “smart” procedural reforms that help streamlining filing and payment processes, including the gradual shift towards effective information technology solutions.
10. ERLP has in this regard proposed a two-year time-framed game plan for the transition towards a full-fledged VAT system. The roadmap consists of eight phases to be implemented starting July 2021 till January 2023.
11. The key first step towards the implementation of a VAT system is the detailed review, and agreement on key VAT policy parameters, which will constitute the basis for the drafting of the legislative framework; and ensuring clear guidance on how to move forward in the second phase.
12. A detailed description of the agreed five policy parameters essential for the transition towards a full-fledged VAT system are presented hereafter.

### *Parameter 1: Registration*

13. The representatives of the MOF and Tax Authority have agreed to the ERLP recommendation for a gradual implementation of the VAT system by opening the registration door to taxpayers over three sequential phases. It is recommended to open the door to VAT registration for designated large

taxpayers in phase I that should last for two years. It was also agreed that based on lessons learned from the initial experience gained from implementing VAT for large taxpayers, Yemen could move to implement VAT for medium-sized taxpayers in Phase II, before fully implementing the VAT for all registered taxpayers.

14. Registered VAT payers will be allowed to issue sales invoices for all their sales and will be able to avail of the input credit for VAT that they have paid on purchases from other registered VAT payers. Non-registered taxpayers will not be allowed to claim input credit nor issue VAT sales invoices.
15. For medium taxpayers, new applicants must be verified for authenticity to prevent the creation of non-existent companies that can be used as the basis for fraudulent credit claims. Those detected using fraudulent practices should be deregistered. This issue will not arise for large taxpayers, since they have already been well identified.
16. During the first phase of implementation, all imports must be subject to VAT collected at borders by customs authority. However, casual importers who are not otherwise required to register in the VAT system, because they do not meet the registration threshold, should remain excluded, as is the current procedure. Registering casual importers will end up clogging the registration system and overload the administration. Instead, casual importers should simply be subject to VAT at the border.

#### *Parameter 2: Threshold*

17. In the current sales tax system in Yemen, companies whose annual turnover exceeds YER 50 million (equiv. approx. USD 200,000 based on the official exchange rate) are required to register for GST purposes. Large taxpayers are designated when their annual turnover exceeds YER 1 billion.
18. Registration is voluntary when the turnover is below this amount based on Article 6e of the Law. The authorities explained that some firms register voluntarily to compete for government procurements and contracts. However, given that the overall number of registered taxpayers is so low (only 303), it is unlikely that there are many cases of voluntary registration.
19. Although the YER 50 million registration threshold is equivalent to USD 200,000 based on the official exchange rate designated for customs, the threshold corresponds to USD 62,500 at the market exchange rate of around YER 800 to a USD. By way of comparison, the threshold in the GCC countries is 365,000 SAR, which is equivalent to about USD 100 thousand. In Lebanon, it is equivalent to USD 100 thousand as well.
20. ERLP has recommended that the VAT threshold must be set at a higher rate than the existing YER 50 million thresholds. International experiences suggest that countries with the lowest thresholds fail to administer VAT systems effectively. The existing threshold is lower than what is followed by

peer countries from the GCC and the MENA region. Tax literature suggests that the threshold should be equivalent of USD 100,000 is for developing countries with weak capacity.<sup>2,3</sup>

21. The representatives of the MOF and Tax Authority have agreed to the ERLP proposal of starting the implementation of VAT with a VAT registration threshold like the threshold for large taxpayers. It was also agreed that, over the medium term, when VAT is fully implemented over a two-year period, the threshold will be kept equivalent to USD 100,000 and denominated in YER at the prevailing exchange rate. Both the thresholds will be stipulated in the draft legislation.
22. Global experiences have shown that raising the threshold and dropping small taxpayers work best for VAT implementation. Any immediate revenue loss resulting from the increase in threshold could soon be recouped once the administrative effort freed from processing numerous low-return taxpayers is shifted to medium and large taxpayers. These, in turn, account for the greatest part of the revenues driven by the VAT.

### *Parameter 3: Tax rate*

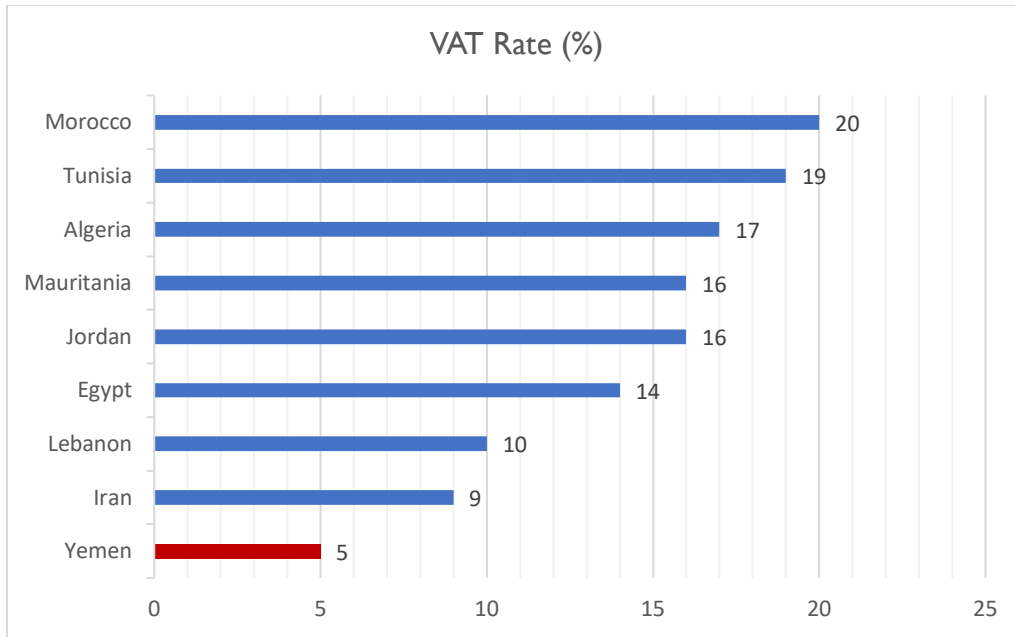
23. The authorities concur with the ERLP advice that the current standard GST rate of 5 percent under the GST Law is extremely low rate compared to peer countries where rates vary from 10 to 15 percent. Figure below shows comparative VAT rates in other MENA countries, e.g., Egypt 14 percent, Lebanon 10 percent.

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<sup>2</sup> Keen and Mintz (2004) Keen, Michael (2007) —VAT, Tariffs, and Withholding: Border Taxes and Informality in Developing Countries, IMF Working Paper WWP/07/174, July show that the optimal ‘threshold is determined by balancing collection costs against the marginal value of additional tax revenues (the amount of which naturally depends on the tax rate and the tax base).

<sup>3</sup> Cnossen, Sijbren (1994) —Administrative and Compliance Costs of the VAT: A Review of the Evidence, *Tax Notes International*, June 20: 1649-68 reports average VAT administration costs of US\$100 per registrant and compliance costs of US\$500. Using this figure Ebrill et al. (2001, 119) estimate that with a VAT rate of 15%, a ratio of value-added to sales of 40%, and an estimated marginal value per dollar of tax revenue, a threshold of US\$52,000 would be warranted. Since the relevant costs are those related to marginal taxpayers, they are likely to be somewhat higher, as Ebrill et al (2001) note. Allowing for inflation since 1994, one can reasonably adjust the 1994 cost figures to, say, US\$150 and US\$650, which would increase the threshold estimate to about \$68,000. Since the relevant costs are those applicable to the marginal taxpayer, they are likely to be higher than average costs, so the very rough number given in the text above (\$100,000) seems reasonable as a reference point.





24. The authorities agreed that the standard VAT rate should be raised to the recommended 10 percent range. It is noteworthy that large taxpayers at the first phase of VAT implementation would be effectively subject to a rate less than 10 percent, as they are going to benefit from a deduction of taxes on all their inputs which is not the case in the current law.
25. It also agreed to introduce a reduced rate of 3-4 percent for essential goods. Currently, these essential goods are completely exempted from taxes. However, the authorities believed that basic food grains (e.g., wheat, rice, etc.) should be exempt from VAT. This has been noted for consideration when the legislation is drafted. Under the current GST law, excise rates are included in a schedule (Table 3 of the GST law) as part of the tax rates specified for certain commodities (cigarettes, weapons, gold jewelry, and mobile phones). These are typically excise taxes on certain commodities and are not included in the VAT legislation. It was emphasized by the ERLP team that excise taxes have different enforcement and control mechanisms and should be placed within new Excise legislation.
26. The authorities have agreed to the ERLP recommendation that all commodities specified in Table 3 of the current GST law should first be subjected to the VAT 10 percent general rate. Additional excises over and above the general rates should be specified and drafted in a new separate Excise Law and not be part of the VAT law. Additional excise rates should, in this regard, be defined based on the nature of each item in the schedule.
27. The authorities have also expressed the view that excise rates on luxury goods, such as tobacco, cigar, and gold accessories, should be increased as a means to increase tax receipts. It was agreed that in the draft new Excise Law, the aim will be to rationalize excise rates as suggested by the authorities. This draft could be finalized in parallel to the VAT draft law, within the same suggested timeframe of 18 months.

#### *Parameter 4: Exemptions*

28. Much of the potential VAT base is excluded from the scope of the tax in many developing countries for a variety of reasons – administrative, distributional, and economic. In Yemen, the tax base is already so narrow that these types of exemptions - if applied on a VAT instrument as they currently are through the GST system - will restrict the positive impact on revenues.
29. The authorities agreed with ERLP that it is important to revise the existing list of exemptions. It was agreed that some of the commodities and services on that list should be taxed. Some items in the current exemption list are not standard, when comparing it to the benchmark exemptions in peer countries and will be considered as representing policy gaps. This leads to significant tax expenditure and possible loss of revenue. Some of the specific exemptions provided in Table I of the GST Law have been re-examined –and these changes will be reflected while drafting the new VAT law.
30. The exemption list contains three types of exemption from GST: (a) product-based exemptions such as food products, and basic services such as health and education services, (b) buyer-based exemptions focusing on the nature of the buyer, such as non-profit organizations, embassies, and international institutions, and (c) Use-based exemptions for products that are going to be sold to another final consumer.
31. The first type containing four major items (banking, financial and insurance services, education, and health) are typically exempt in a standard VAT regime around the world, including in the European Union (EU) and the MENA region. It has been agreed to keep these exemptions in the new VAT framework.
32. As for the second type of exemption in the GST law which is the services and products of embassies, and international institutions, the authorities agreed to keep this exemption. It is good international practice to have these exemptions since there is reciprocity involved between nations.
33. However, for the third type, after reviewing the exemption schedule included in Yemen's GST law, ERLP experts agreed with the authorities on removing the exemptions for internal land transport services and hotel services. Many countries tax private operated companies and exempt public ones. This is not a good tax policy. There is no good justification for exempting public land transport, since the tax is ultimately paid by the passenger, whether he/she uses public or private transport. In addition, the exemption on one-star hotel services should clearly be removed.
34. Although the revenue involved is likely to be small, a few items that will be removed from the list of exempted services includes hotels, internal land transport services, non-governmental organizations<sup>4</sup>.

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<sup>4</sup> Of course, with VAT even an exempted good is in fact still subject to some taxation to the extent that inputs into its production are subject to VAT. Only when a good is "zero rated" is it really freed from VAT. As a rule, however, developing countries are well advised to avoid zero rating other than for exports. Yemen should continue to restrict zero rating only to exports.

35. Other exemptions, such as for financial services and real estate, are addressed more explicitly in the following sections.

#### *Exemption for Financial Services*

36. The authorities agreed with the ERLP recommendation to maintain the exemption system for banking and financial services, consistent with better practice standards. Some non-financial services performed by banks, such as advisory service, brokerage, and safe deposit lockers, will, however, be included under normal services that are subject to VAT at the standard rate.

#### *Real Estate Properties*

37. Under the current GST Law, rentals and exploitation of lands and real estate for the purpose of developing private housing facilities are exempted from VAT.
38. Immovable property refers to the bundle of legal rights associated with ownership and use of land, structures, and improvements. Services associated with real estate property development include construction, renovation, leasing, and sale. These services must be carefully considered before setting up a VAT.
39. In OECD countries, supply of land and buildings, and letting of immovable property, are subject to a standard VAT exemption. At the same time many OECD countries diverge substantially from this rule.
40. At a more detailed level, within the European Union, although both sales and rentals of existing real estate facilities are VAT-exempted, newly constructed buildings as well as remodeled facilities are fully taxable under the existing VAT system. A VAT is charged on future services (based on residential use or subsequent sale), at the time of purchase of the property. However, a subsequent increase in the value of property is not taxable, as it is not recorded in the tax base. While the sale of existing properties is exempted from VAT in the EU case, the return from the sale of a property is subject to other special taxes and fees, such as land transfer taxes, stamp duties, notarial fees, and registry charges, as well as capital gains tax. In several countries, as in Lebanon, commercial rent is treated as a business activity and subject to VAT, but residential rent is exempt.
41. Based on the discussions with the Yemeni authorities, it was agreed to follow the Lebanese model and charge VAT on commercial rent but to exempt residential rent. Yemen does not appear to impose significant property transfer taxes in other forms. Hence it is proposed to impose VAT on new buildings -- as a sort of VAT prepayment. This can at least be applied to properties that are sold for commercial (non-residential) purposes. Also, intermediation services, such as real estate commissions, will be subjected to VAT.

### *Parameter 5: Tax deferral on Import of Raw Materials and Capital Goods*

42. There seems to be no adequate rationale for a general deferral of VAT on imports of raw materials, machinery, and equipment.<sup>5</sup> Many of these items with respect to which VAT is not collected immediately at the border are not subsequently subjected to any tax. Deferring tax payment for all raw materials and investment goods is not an effective solution and must clearly be revisited.
43. ERLP agreed with the authorities on a more reasonable solution which is to develop a shortlist of compliant taxpayers (which can be determined based on the evidence-based risk management system) who can benefit from VAT deferral on imports for a limited period.
44. This deferral will not be allowed for raw materials and investment goods that go into the manufacturing of items produced primarily for domestic consumption.

### **Next Steps Towards Phase II**

45. The agreement on the main policy parameters at the level of the MOF and the Tax Authority is a major achievement in the goal of the Yemeni authorities to transition from a GST to a VAT in a phased manner.
46. The next step will be for the ERLP team to work with the authorities to draft the major provisions of the new VAT law based on the agreed policy parameters. This will include the substantive and the procedural provisions.
47. Following the drafting of the law, the ERLP team will provide technical assistance to the MOF during the discussion of the VAT with the Ministry of Law and the Council.
48. Meanwhile, design and development of subordinate rules, regulations, procedural requirements, and VAT forms will be undertaken,
49. Once the VAT law is passed, preparation will be made to implement the VAT for large taxpayers first. Taxpayer education programs will be conducted for large taxpayers and for tax officials who will be responsible for administering the tax for large taxpayers.

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<sup>5</sup> Keen, Michael (2007) —VAT, Tariffs, and Withholding: Border Taxes and Informality in Developing Countries, II IMF Working Paper WP/07/174, July discusses the importance of the import VAT in countries with large informal sectors.

## Appendix I: Roadmap for the Transition towards a Full-fledged VAT Regime

A roadmap is presented below in Table I with a timeframe, key actions required, and the agencies that would be responsible for supporting these actions.

**Table I. Time-framed Game Plan to Transition from a hybrid/GST structure to a VAT System**

TIMELINE	ACTION	SUPPORT
July to Sep. 2021	Discuss with key stakeholders the key policy parameters for the new VAT, determining rates, exemptions, tax base, and registration threshold.	MOF, Tax Authority, Customs, Chamber of Commerce, ERLP
Oct. to Dec 2021	Draft the major provisions of the new VAT law based on the policy parameters set earlier, including substantive and procedural provisions.	Ministry of Law, MOF, Tax Authority, ERLP
Jan to Mar 2022	Discussion of the VAT law in Parliament, Passage of the VAT law in Parliament, or alternatively, a Presidential Decree.	Ministry of Law, MOF, Tax Authority, Parliament, Presidential Secretariat
Jan. 2022- April 2022	Design and development of supporting subordinate rules, regulations, procedural requirements, forms, etc.	Ministry of Law, MOF, Tax Authority, ERLP
Jan. 2022- April 2022	Formulate software/hardware specifications for the IT system and related business flow requirements for the new VAT	MOF, Tax Authority, ERLP
May to July 2022	Invite relevant donor institutions to discuss financing the development of the IT system and other related modernization through grants/credit.	MOF, Tax Authority, World Bank, Islamic Bank, ADB
April 2022 – Dec 2022	Train Tax Authority staff in VAT audit, returns processing, and other functions specific to VAT. Identify and mentor leaders who will implement the VAT	MOF, Tax Authority, ERLP
Jan 2023	Launch the new VAT in a phased manner, first in Aden, then gradually to other governorates	MOF, Tax Authority



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# ECONOMIC RECOVERY & LIVELIHOODS PROGRAM (ERLP) – YEMEN

A CONCISE POLICY NOTE ON APPROACHES TO  
IMPROVE TAX COLLECTION

ANNEX 15

June 2021

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## **INTRODUCTION**

This brief responds to a request by the Ministry of Finance (MOF) to prepare a short paper proposing approaches to ease up current difficult situation with tax collection and to boost revenue mobilization within the context of Yemen's challenging political economy environment.

Two questions of special interest raised by the MOF were the following:

- i. What are the possible alternatives to deal with the situation where electronic payment of taxes is hampered because the banks, that normally act as tax collection intermediaries, are not allowed to access their accounts which are kept on hold by the Central Bank of Yemen (CBY) in Sana'a?
- ii. With the proposed introduction of a full-fledged VAT, initially for large taxpayers, what would be number of earlier stages of value addition that the Tax Authority must verify, when conducting an audit of VAT returns of a taxpayer?

In addition to proposing solutions to the above two questions of special interest, this brief also proposes other tax policy and tax administration measures to improve collection.

## **CHALLENGES IN OBTAINING ELECTRONIC PAYMENT**

Electronic payment is the most efficient and quickest method of collecting taxes. It reduces both administrative and compliance costs. The alternative to allow cash payment of taxes at tax offices is a wrong option and is fraught with administrative, accounting, and transparency problems and should never be supported.

Several workarounds could be possible in the interim until the issue is settled with the CBY in Sana'a. The banks in the Government-controlled areas could start keeping their deposit reserves in the CBY Yemen for future transactions. An alternative interim option could be for taxpayers to deposit cash at their respective banks for payment of taxes due, and the banks could then transfer the collected tax electronically to the Tax Authority within the next few days. This would avoid money going to CBY Sana'a. The ERLP banking and payments team can work with the MOF to facilitate further consideration of these options.

## **INTRODUCTION OF FULL-FLEDGED VAT**

The introduction of a full-fledged VAT is an important step to boost revenue. Because of administrative weaknesses, VAT should, in the first instance, be implemented for the large taxpayers only before being gradually rolled out to mid-sized businesses a year later. Limiting VAT to large taxpayers will ensure effective control of VAT, given the current weak administrative capacity. There is currently significant revenue leakage in the large taxpayer segment, which can be largely plugged with the introduction of VAT.

Because VAT features a robust self-policing mechanism, it will ensure sizeable improvement in compliance levels. Because of the need for getting input credit based on invoices for purchases made, both the buyer and the seller have an incentive to show the correct value of their transactions. Under-

reporting of sales by the seller will not be encouraged by buyers, since they would like to get credit for the tax paid on the full purchase amount.

Self-policing can be enforced by cross-matching input invoices claimed against invoices declared by the seller. Any discrepancy can become a cause for query, and in the absence of a plausible explanation, can be a subject of audit and adjustment of tax. It is a misconception that the Tax Authority must verify invoices earlier in the value-addition chain from buyers of buyers and so on. Effective control can be maintained by simply cross-matching all input invoices of the taxpayer with the invoice issued by the seller. Any discrepancy in underreporting of sales or overreporting of purchases can be detected during cross-matching. Since implementation at the initial stage is only for large taxpayers, the volumes of invoices to be matched will likely not prove overwhelming. Over time, when the VAT is rolled out to mid-sized taxpayers, IT solutions can be considered, but these will not be necessary now for the small number of large taxpayers.

Invoicing requirement: Issuing invoices with VAT amount should be compulsory with the exception for business to consumer (e.g., supermarkets), where the use of a simplified cash receipt should be allowed.

## **IMPLEMENTATION OF A TAX ON TELECOMMUNICATION SERVICES**

It has been reported that telecommunication companies that provide internet and mobile services are based in Sana'a, and thus are evade paying taxes to the Government in Aden.

It is proposed in this regard that an excise tax be levied, not on the telecom companies which are outside Government's reach, but on local internet providers and mobile phone providers that operate in the Government-controlled area. These providers use the airwave facilities provided by the Government. To enforce collection, failure to pay taxes by the local providers could become a cause for disconnecting them from the facilities. The Government should quickly promulgate a decree to initiate this process.

## **OTHER MEASURES TO IMPROVE COLLECTION**

In addition to the aforesaid three important measures that will help boost collection, if implemented expeditiously, the following other steps will also assist in improving collections:

- 1) Eliminate several minor local taxes that generate little revenues and take up a good deal of administrative effort; this will release much-needed manpower for implementing VAT for large taxpayers.
- 2) Minimize exemptions as much as possible and limit them to basic unprocessed food, medicines, medical and financial operations. Exemptions of particular commodities complicate the administration of a VAT. In practice, the distinction between what is exempt and what is taxed is often tenuous or subject to disputes, which should be minimized.
- 3) Use zero-rating exclusively for exports, based on the destination principle of consumption tax. Zero-rating carries the right to a refund of prior stage tax paid on inputs of goods and services. Most countries have restricted this to exports.
- 4) VAT should be administered by the Tax Authority. However, it is common international practice to delegate the collection of VAT on imports to the Customs authorities

- 5) In the initial stage, when VAT will be implemented only for large taxpayers, checking the authenticity of taxpayers will not be required, since they will all be well known to the Tax Authority. However, when VAT is rolled out to mid-sized businesses, checks to ensure that the entity is authentic and existing. The number of VAT-registered taxpayers should be closely watched for not exceeding the number of taxpayers who file VAT returns. Misguided registration campaigns should be avoided because fraudulent taxpayers tend to register to exploit the limited resources of the tax administration.
- 6) For large taxpayers, return filing and payment of taxes should be monthly. However, for mid-sized taxpayers, the process can be simplified by allowing quarterly return filing to efficiently use available administrative resources.



# USAID ECONOMIC RECOVERY AND LIVELIHOODS PROJECT (ERLP) IN YEMEN

REPORT ON REGULATORY REFORMS DESIGNED TO IMPROVE THE EFFICIENCY AND TRANSPARENCY OF THE CORE FUNCTIONS (REGISTRATION, FILING, AUDITS, COLLECTION, AND APPEALS)

ANNEX I 6

JUNE 2021

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## I- Abstract

A previous review of the core policy and administrative constraints facing the Yemeni tax administration has demonstrated that significant changes will be needed to improve the implementation of needed reforms, and provide greater flexibility in managing resources; in order to guarantee the tax administration's capacity to fulfill its crucial role in revenue mobilization.

This paper proposes regulatory and operational guidelines for reforming the tax administration system, with a view to significantly improving the efficiency and transparency of its core functions: registration, filing, examinations/audits, collection, and appeals. A critical initial step in this direction would be to establish a large taxpayer unit.

The Economic Recovery and Livelihoods Project (ERLP) fiscal team, working with the head of the tax administration and other high-ranking tax officials, has identified the essential elements for a successful reform, and presented measures for improving the country's tax administration. The common thread of this reform strategy is a focus on two key approaches: the promotion of voluntary taxpayer compliance, and the adoption of a logical sequence of procedures for efficiently identifying and handling instances of noncompliance.

## 2- Executive Summary

After assessing Yemen's tax administration framework and system, it is clear that the key constraints to improved efficiency and transparency include not only a lack of technical and human resources, but also a lack of institutional accountability and of a clear strategy for reform. The fiscal team drafted this paper to provide critical insights on key reform measures that can help strengthen both the effectiveness and efficiency of Yemen's tax administration.

**Effectiveness** is achieved when a high level of compliance is attained among the citizens. This can be done by promoting voluntary compliance and self-assessment through taxpayer education, a prompt detection of problems with tax filing and payment, improvement of audit coverage, and the application of adequate penalties.

**Efficiency** is achieved when the administration cost per rial of tax revenue is minimal. This goal can be reached by assigning more resources to the large taxpayer unit, enhancing the integrity of the registered taxpayer base, and using banks to receive tax payments after solving the cash-flow problem between the central bank branches in Sana'a and in Aden.

In addition, improving effectiveness and efficiency implies an organization of the tax administration that would enable it to support five principal functions: taxpayer registration, accounting and returns processing, collection enforcement, auditing, and appeals.

To achieve these objectives, the ERLP fiscal team has designed a comprehensive strategy that specifies the priority reforms to be realized within a timetable extending through March 2022, considering the available resources of the Yemeni tax administration system.

To effect successful reforms, it has been suggested that the government begins with a pilot project that would apply new strategies for the large taxpayer unit. This approach would allow the tax administration to test new procedures for taxpayer identification, registration, collection, enforcement, and audits on a smaller number of large taxpayers; before extending these procedures to the rest of the taxpayer population. A successful effort focused in this direction would bring the added advantage of helping convince skeptics that reform is possible.

The ERLP fiscal team has drafted detailed reform recommendations, along with a strategic timetable, and presented it to the tax administration office. During ERLP expert's upcoming onsite mission in Yemen, meetings with the senior officials will focus on creating a common vision based on agreed-upon priorities, identify key bottlenecks, and to agree on concrete measures to address the problems with registration; tax return and payment processing; detection of stop-filers; collection of arrears; delinquent taxpayers; audits; and management, organization, and personnel.

## 3- Focus Areas

### 3-1 Taxpayer Registration

The proposed processes and controls are intended to:

1. design systems that provide a single national overview of taxpayers.
2. systematically rid taxpayer registers of inactive and redundant accounts.
3. include in the database complete information regarding the status of each taxpayer's obligations.
4. close ceased or disappeared taxpayer accounts.
5. routinely and systematically analyze taxpayer accounts to detect duplicated or irregular registrations.
6. effectively monitor taxpayers' obligations to improve compliance; and
7. initiate efforts to identify unregistered activities dealing with cash, to be done through a systematic exchange of information between government agencies using taxpayer identification numbers (TINs) and a cross matching of taxpayer information with third-party data.

### 3-2 Monitoring Filing Obligations

On-time filing rates for all types of taxes in Yemen are below international standards. The country's performance in this area has been strongly affected by the low quality of the taxpayer register, which contains many nonexistent taxpayers that should be deregistered but are still considered as potential filers. However, the tax administration authority has recently been provided information and preliminary training from ERLP on new procedures for detecting and deregistering terminated taxpayers and for promptly identifying late filers, contacting them, and applying adequate penalties.

### 3-3 Audits

A functional organizational structure has been proposed to the tax administration that includes a central audit unit, distinct from the field operations and responsible for developing audit policies, procedures, and plans, and for monitoring the programs implemented by the field offices. The creation of this central unit would stop the tax administration from being overly operations-oriented, enabling it to pay more attention to audit-management functions.

At a later stage, noncompliance risks should be effectively targeted. Audit-case selection techniques should be developed when intelligence activities and third-party information utilization are more systematically implemented.

A high portion of the actual resources should be dedicated to systematic audits (desk audits) of corporate income tax (CIT) and personal income tax (PIT) returns based on their risk.

An audit coverage assessment will be done to determine the type of audit plans to be proposed in terms of the numbers and types of audits (i.e., whether they should be comprehensive or issue-oriented).

Audit quality should be assessed by monitoring the proportion of audit assessments that are disputed and discharged, and by monitoring tax-collection rates.

### 3-4 Collection

Debt management in Yemen is questionable, with the absence of write-off mechanisms and weak compliance monitoring. Given the war situation, collection enforcement is not seen as a strategic priority. An initial procedural framework has been developed for the tax administration authority that would (i) create and maintain a dossier of arrears with reference to the value, age, and collectability of the delayed payments; (ii) promptly detect delinquent taxpayers; and (iii) set up a process for transferring uncollectible debts to another register.

### 3-5 Tax Dispute Resolution

Despite the presence of an independent review mechanism, the number of disputes is extremely low. This could reflect the disaffection of taxpayers, given the incapacity of the tax administration to resolve cases in a timely manner. The number of objections processed is also low, due to the lack of staff and the fact that the outcomes of dispute resolutions are never analyzed.

A targeted procedural reform framework is proposed to closely monitor the tax appeals process, inform taxpayers of their right to object to audit results, and monitor the underlying causes of disputes.



### 3-6 Large Taxpayer Unit

The tax administration office in Aden has taken the initial step towards establishing a large taxpayer unit. The ERLP fiscal team will push for further steps in that direction. These would include assigning elite groups of better-trained and less-corruptible officials and monitoring the collection of taxes from large taxpayers who, although not large in number, account for most of the tax revenues — as high as 80 percent of value-added taxes (VATs) and CITS. This unit would virtually guarantee the timely collection of most tax revenues and the prompt identification of stop-filers and delinquent taxpayers, so that the appropriate action, including the imposition of penalties, could be taken.

An activated large taxpayer unit would also significantly reduce errors in tax declarations and minimize delays in the collection of substantial amounts of revenue due to errors or violations (such as late filing). With this unit in place, even given the limited resources, the tax administration could properly focus on reform and on the adoption of more efficient procedures for the most important taxpayers, rather than on small taxpayers, whose revenue generation is not substantial.

A large taxpayer unit could also serve as a model for the extension of modern tax-administration practices to the rest of the taxpayer population. In many countries in the region, such as Jordan and Lebanon, large taxpayer units have been established as pilot projects, allowing the tax authorities there to try out new methods and technologies. The future success of such pilots will demonstrate to the Yemeni tax administration that it is possible and advantageous to modify procedures and systems.

The large taxpayer unit should cover both audits and tax collection because, with large taxpayers, detecting evasion is important for the same reason as monitoring compliance with filing and payment requirements. In addition, large taxpayers usually carry out a high volume of transactions and engage in complex operations. They frequently have several branches of operations inside and outside Yemen. They tend to have highly skilled accountants and lawyers and may use forms of evasion that are difficult to detect, such as transfer pricing. These practices often make it necessary to establish special monitoring units with highly specialized staffs.

# Annex: Recommendations for the Reform of the Tax Administration System in Yemen

## A-1 Introduction

The Economic Recovery and Livelihoods Project (ERLP) fiscal team provided a detailed diagnostic analysis of the efficiency and transparency of the key operational and institutional pillars of the tax-administration system in Yemen. The analysis covered the period from November 6, 2020, to January 15, 2021, using an analytical framework modeled on the Tax Administration Diagnostic Assessment Tool (TADAT). Based on this assessment, a detailed report discussing the strengths and weaknesses of the tax-administration system was developed and presented to the government authorities. The ERLP team also developed a functional organizational chart for tax administration, which was discussed with the authorities during a working visit to Egypt in April 2021.

The performance assessment of Yemen's tax-administration system revealed specific bottlenecks, which are further addressed in this report with a particular focus on the following areas:

1. organizational structure,
2. taxpayer registration procedures,
3. tax return and payment processing,
4. fast detection of non-filers and collection of arrears,
5. audits of delinquent taxpayers, and
6. dispute-resolution processes.

## A-2 Organizational Structure

The ERLP team developed a functional organizational chart that would ensure a separation of powers in the areas of planning and execution. The new chart differentiates between the roles and functions of the **headquarters**, which would provide policies and guidance, and of the **field offices**, which would focus on program implementation under the supervision of headquarters.

In the government-controlled areas of Yemen, there is a total of 200,000 registered CIT and PIT taxpayers; of these, 636 are large taxpayers, including about 310 goods-and-services (GST) taxpayers. Just 3 percent of taxpayers account for about 80 percent of the total collected tax revenues. For this reason and given the limited staffing and reduced IT capabilities in the tax-administration system, ERLP thus has recommended an initial focus on implementing the proposed reforms with a focus on large taxpayers, which could yield significant results in terms of an increased tax-collection rate and taxpayer compliance.

As mentioned above, the proposed reforms would allow the tax administration to design and implement new procedures for taxpayer identification, registration, collection, enforcement, and audits within the large taxpayer unit, and then extend these procedures to the wider taxpayer population. The arrangements for monitoring large taxpayers could be followed by special programs to guide and monitor small and medium taxpayers, who represent the largest proportion of the taxpayer population in Yemen.

A separate plan will soon be developed to strengthen the tax-administration staff through recruitment and capacity building, to support the reforms in the key functional areas, which are discussed in the subsequent sections below.

### **A-3 Taxpayer Registration and Accuracy/Reliability of Taxpayer Information**

#### **Objective**

Develop a taxpayer registration database with information that is complete, accurate, and up to date. All businesses, individuals, and other entities that are required to register with the commercial registrar should be automatically included in this database.

#### **The Current Situation**

The taxpayer registration system in Yemen is quite rudimentary, lacking many of the necessary features for a well-functioning tax system. Some of the problems are as follows:

- The centralized national registration database and high-integrity identification numbers are only applied to large and medium taxpayers.
- There has been no deactivation or deregistration of dormant or inactive taxpayers.
- The tax-administration system has not attempted to detect unregistered businesses or individuals.

#### **Proposed Reforms**

ERLP recommends the following reform measures to streamline the taxpayer-registration processes:

- Generate unique high-integrity TINs to facilitate the routine identification of taxpayers, the detection of non-filers, and data matching with third-party information (e.g., on the interest earned on bank deposits, dividends paid, and sales of assets). In addition, these TINs should facilitate an effective exchange of information with other government agencies. High-integrity TINs are typically simple numbers with no coded information (i.e., containing no alphabetic or special characters), and they can easily be processed through a self-validating mechanism (e.g., a digit check).
- Develop a database comprising accurate and reliable information about taxpayers (e.g., contact details, type and size of business, and tax category). The database will facilitate interactions with taxpayers and tax intermediaries such as tax advisors and accountants. The database will be reviewed on a regular basis to filter out information on inactive taxpayers (e.g., seasonal companies, deceased individuals, dissolved companies, and invalid or duplicate records). In this regard, inactive records cause unjustified administrative expenditures — for example, through enforcement actions initiated against dissolved companies or deceased persons — and they distort the estimates of the expected tax revenues.
- Ensure that requests for registration are based on reliable information, to prevent the infiltration of nonexistent/false entities, as both the VAT and income taxes are considered particularly vulnerable to fraudulent refunds. Additional initiatives could also be taken to detect unregistered companies or individuals, especially those associated with high-risk profiles (e.g., high-income, or self-employed taxpayers). These initiatives would be based on information cross-checking with

third parties. For instance, the national labor database could be accessed to retrieve information on individual taxpayers as needed. Field visits to businesses in commercial districts should also be undertaken to detect unregistered businesses or employees.

### Procedural Reforms

Focus Area	Main Tasks	Time Frame
Issuing unique high-integrity taxpayer identification numbers (TINs)	<ul style="list-style-type: none"> <li>• Develop strict control-management procedures for the issuance of TINs, ensuring that the same TIN is not assigned to more than one taxpayer, and that each taxpayer is assigned only one TIN.</li> <li>• Address the problem of over-registration of taxpayers (i.e., inactive, or redundant accounts) by identifying registered taxpayers who are actively filing and paying taxes, and questioning those who are not registered, in order to determine whether they are active or inactive.</li> <li>• Provide technical assistance to the tax administration staff.</li> </ul>	2 to 3 months (High priority)
Developing a database containing accurate and reliable information on taxpayers' identification	<ul style="list-style-type: none"> <li>• Conduct a detailed analysis of the existing registration forms.</li> <li>• Propose a set of clear standards for identifying and filtering out the registration information of inactive taxpayers.</li> <li>• Deregister inactive taxpayers based on a detailed analysis of dormant registrations.</li> </ul>	2 to 3 months (High priority)
Ensuring that registration requests are reliable	<ul style="list-style-type: none"> <li>• Conduct a detailed examination of the existing processes for identity checks and for documenting related information.</li> </ul>	1 month (High priority)
Detecting unregistered taxpayers	<ul style="list-style-type: none"> <li>• Introduce new measures for the registration of businesses in the informal sector based on the information gathered from tax audits and field surveys, to help detect unregistered suppliers/customers.</li> </ul>	2 to 3 months (High priority)

## A-4 Timely Filing of Tax Returns

### Objective

Strengthen the tax administration, so it can ensure that taxpayers file their returns in a manner that complies with statutory deadlines.

## The Current Situation

The ERLP team identified low on-time filing rates as a major barrier to compliance. Only 10.4 percent of CIT taxpayers, 10.6 percent of PIT taxpayers, 39.5 percent of GST payers, and 42.3 percent of employers withholding taxes on salaries file their returns in a relatively timely manner. Even within the large taxpayer base and considering that these taxpayers are fewer in number and easier to monitor, only 35.8 percent file their tax returns on time.

## Proposed Reforms

The existing low filing rate in Yemen is the result of the tax authorities' poor supervision capacity. ERLP recommends the following priority measures to improve the taxpayer compliance rate:

- Simplify the filing procedures and separate the filing and payment tracks, so that each process can be carried out independently.
- Take proactive action to disseminate the calendar of deadlines for filing (e.g., through information campaigns, direct messages to taxpayers, and follow-up reminders).
- Quickly identify taxpayers who do not submit their tax returns on time. This would require an accurate database containing relevant information on taxpayers with inactive or redundant accounts.
- Ensure a timely follow-up process and operationalize an enforcement action plan by:
  - directly communicating with taxpayers (via phone, e-mail, or on-site visits) to explore the reasons for late filing or non-filing, initially focusing on large taxpayers because of their potential impact on tax revenue.
  - sending multiple notifications to taxpayers indicating the approaching deadline(s) for the submission of tax returns and emphasizing the importance of timely compliance to avoid facing penalties.
  - in the case of a proven default, developing an ex-post assessment of the estimated tax liability based on the available tax records, which should be matched/cross-checked with third-party information (possibly creating an additional incentive for taxpayers to file their tax returns and obtain a second assessment of their tax liabilities); and
  - pursuing criminal prosecution action against non-filers.
- Use taxpayer-profiling techniques to determine the most effective actions for achieving on-time filing.
- Ensure that tax intermediaries involved in preparing and submitting tax returns are aware of the existing filing processes and procedures, in addition to any recent changes in tax regulations.
- Develop awareness programs to help specific groups of taxpayers understand their obligations, including the elderly and uneducated citizens.
- Establish a dedicated filing-enforcement team with full-time staff trained in client relations and negotiation techniques.

## Procedural Reforms

Focus Area	Main Tasks	Timeframe
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Separating the return-filing process from the payment process, and simplifying the filing procedures	<ul style="list-style-type: none"> <li>Change the current practice of not accepting tax returns that arrive without payment receipts.</li> </ul>	2 to 3 months (High priority)
Reminding taxpayers of approaching deadlines for filing	<ul style="list-style-type: none"> <li>Set up an automated email system for sending regular notifications prior to the filing deadlines.</li> <li>Systematically use information campaigns in the media to remind taxpayers of their filing due dates.</li> </ul>	1 month (Medium priority)
Identifying taxpayers who do not submit returns on time	<ul style="list-style-type: none"> <li>Set up a process to identify non-filers and determine the primary causes of non-filing.</li> <li>Profile recalcitrant taxpayers and submit a list of them to the filing enforcement unit.</li> </ul>	1 month (High priority)
Ensuring timely follow-up with the appropriate law-enforcement actions for noncompliant taxpayers	<ul style="list-style-type: none"> <li>Document all procedures and train the enforcement team to effectively communicate with recalcitrant taxpayers, issue ex parte assessments of delinquent taxpayers, and prosecute defaulters.</li> <li>Help the tax authorities focus on the stop-filer taxpayers with the highest incomes or largest sales volumes.</li> </ul>	2 to 3 months (High priority)
Developing awareness programs	<ul style="list-style-type: none"> <li>Design targeted awareness campaigns for intermediaries and small taxpayers.</li> </ul>	2 months (Medium priority)
Establishing a dedicated filing-enforcement team with a full-time staff trained in client relations and negotiation techniques	<ul style="list-style-type: none"> <li>Design and provide targeted training in filing-enforcement techniques to the relevant tax-administration staff.</li> </ul>	1 month (High priority)

## A-5 Audit Procedures and Accuracy of Reporting

### Objective

Develop a well-targeted auditing program that promotes accurate reporting and optimal levels of filing compliance.

### The Current Situation

The ERLP team has identified the following core weaknesses in tax auditing:

- The tax audit planning function is decentralized at the local level, and the tax authorities have no central registrar for all the information generated by the various tax audit activities.
- There is no centralized risk analysis mechanism for selecting audit cases.

- There is no system for issuing binding rulings to clarify ambiguous laws, regulations, or procedures, so that taxpayers could be assisted in managing the filing process successfully.
- There is no regular system for cross-checking the information in tax return forms filed through third parties.

## Proposed Reforms

It is generally recognized that taxpayer perceptions of the efficiency and legitimacy of audits significantly impact compliance rates. Thus, the effectiveness of the tax audit function will greatly affect the tax authorities' ability to enforce compliance and limit tax evasion. The ERLP team recommends taking the following steps to improve the effectiveness of the tax audit function and to improve taxpayer compliance in Yemen:

- Implement a centralized risk-based audit-selection process, using analytical data to identify and select the highest-risk cases within a target group of taxpayers.
- Design adequate penalties to correct the discrepancies that are detected through tax audit activities, in terms of nondisclosure of income or sales.
- Launch awareness campaigns that clearly explain the consequences of tax evasion, including penalties and prosecution.
- Initiate an intelligence-gathering tool to help monitor any emerging risk of noncompliance, including estimations of revenue losses caused by common taxpayer errors.
- Provide capacity-building programs for systematic cross-checking through third-party sources (e.g., banks, employers, and other government agencies).
- Develop a comprehensive auditing manual that lays down the procedures for an integrated tax audit cycle, and the procedures for short-term and multiyear audit activities.
- Over the medium term, support audit operations by:
  - initiating new procedures for providing consolidated records of taxpayer compliance histories for all core taxes; and
  - developing benchmark economic-performance parameters for key sectors, businesses, professions, and occupations, to be used to identify taxpayers who file tax declarations that do not fall within the norm for a given sector/industry.
- Monitor the level of inaccurate/incomplete reporting by conducting a tax gap analysis.

## Procedural Reforms

Focus Area	Main Tasks	Time Frame
Developing a comprehensive auditing manual	<ul style="list-style-type: none"> <li>• Set out a road map for auditors to follow when selecting, planning, conducting, and finalizing a tax audit, to achieve consistency in dealings with taxpayers, interpretations of legislation, and in the implementation of operational procedures.</li> </ul>	3 to 4 months (High priority)
Implementing a centralized risk-based audit-selection process	<ul style="list-style-type: none"> <li>• Analyze data from internal and external sources to identify and select the highest-risk cases within different target groups of taxpayers.</li> </ul>	4 to 6 months (High priority)

	<ul style="list-style-type: none"> <li>• Introduce intelligence methods to identify specific sectors and/or taxpayers that should be audited.</li> </ul>	
Assessing the actual audit coverage and the level of underreporting	<ul style="list-style-type: none"> <li>• Evaluate the level of taxpayer compliance by conducting a tax gap analysis.</li> <li>• Estimate the average profit-to-sales ratio across the different sectors/industries to help identify incidents of underreporting.</li> </ul>	1 month (High priority)
Preparing an audit plan and training the tax administration staff in how to implement it	<ul style="list-style-type: none"> <li>• Help to choose different sectors/types of taxpayers to be targeted for priority auditing activities.</li> <li>• Train the tax administration staff in the use of various audit techniques to address a wider variety of compliance issues.</li> </ul>	3 months (High priority)
Strengthening human resources	<ul style="list-style-type: none"> <li>• Assess the required number of staff to be assigned to perform the various auditing activities and provide targeted technical training for the staff.</li> </ul>	3 months (Medium priority)
Building capacity for systematic cross-checking through third-party sources	<ul style="list-style-type: none"> <li>• Introduce a small-scale program for cross-checking information related to large taxpayers.</li> </ul>	3 months (High priority)
Monitoring audit activities	<ul style="list-style-type: none"> <li>• Develop new evaluation techniques to assess the productivity and effectiveness of the tax audit program.</li> </ul>	2 months (Medium priority)

## A-6 Tax Collection/Timely Payment of Taxes

### Objective

Ensure that taxpayers pay their taxes in full and on time.

### The Current Situation

- The on-time VAT payment rate (in value terms) is very low: 38 percent in 2019.
- There are no electronic payment facilities for core tax categories.

### Proposed Reforms

The ERLP team recommends taking the following reform measures to ensure that taxes are paid on time, and to limit the degree of tax evasion:



- Develop an adequate legal/regulatory framework that provides:
  - an effective debt recovery plan (e.g., in cases of bankruptcy or business closure).
  - appropriate late-payment penalties; and
  - adequate payment rescheduling arrangements for taxpayers with good payment records who are facing temporary cash-flow problems.
- Establish a dedicated enforcement unit with a professional full-time staff trained in the use of efficient tax-collection techniques.
- Develop new call centers and electronic communication platforms to improve services and relations with taxpayers.
- Actively manage the inventory of arrears.
- Coordinate outreach with banks to introduce and facilitate electronic tax-payment facilities.
- Provide the necessary due-diligence activities to facilitate write-offs of uncollectible arrears, since the rate of recovery of tax arrears tends to decline over time.
- Develop a mandatory tax-clearance mechanism that would apply automatically to government-based contracts, grants, and subsidies.
- Design a uniform, standardized series of administrative responses to tax offences, including the falsification of records. Higher penalties should be imposed on taxpayers who obstruct or hinder the audit process. Less severe penalties should be imposed in cases where the taxpayer has taken reasonable care to complete the tax return form and the resulting inaccuracies were not deliberate.
- Develop binding rulings to provide taxpayers with certainty about how the government would apply tax laws to specific transactions.

### Procedural Reforms

Focus Area	Main Tasks	Time Frame
Developing a comprehensive management protocol for collectible debts	<ul style="list-style-type: none"> <li>• Build and maintain a dossier of arrears, with references to the value, age, and collectability of the delayed payment, on a case-by-case basis.</li> <li>• Create a dedicated collection/enforcement unit and train the staff in best practice tax-collection techniques.</li> <li>• Detect delinquent taxpayers and streamline the tax-collection cycle to limit the accumulation of future tax arrears.</li> <li>• Set up a process for writing off uncollectible debts, after conducting comprehensive due diligence.</li> <li>• Assess and separate collectible from non-collectible debts.</li> <li>• Establish procedural reference points to focus staff efforts mostly on the collection of newer and larger debts and limiting the staff resources allocated to the collection of smaller and older debts.</li> </ul>	4 months (High priority)

	<ul style="list-style-type: none"> <li>• Develop clear guidelines for the settlement of outstanding debts, to encourage taxpayers to settle their arrears amicably (e.g., payment through installments).</li> <li>• Review the tax payment policy with a view to delinking it from the filing deadline and facilitate payment of the amounts that taxpayers can pay at the time they file their returns, billing them later for the balance.</li> </ul>	
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## A.7 Taxpayer Disputes, Resolution, and Appeals

### Objective

Make the existing tax-dispute resolution mechanisms fair and independent, accessible to all taxpayers, and effective in resolving disputes in a timely manner.

### The Current Situation

- Few reviews of tax-dispute cases are ever completed.
- There is no systematic analysis of dispute outcomes to determine whether an amendment to a law, policy, or administrative procedure is required.

### Proposed Reforms

The ERLP team recommends taking the following priority reform measures to ensure that tax disputes are addressed quickly and fairly:

- Preserve the independence of the appeals process. Also, a new quality-control mechanism must be installed to ensure that the administrative review of tax disputes is conducted by an adequate number of designated review officers, and not by tax auditors.
- Monitor the deadlines when administrative appeals must be filed and provide the necessary information about these deadlines to the taxpayers.
- Require auditors to provide taxpayers with a clear explanation of:
  - the estimated adjustments in tax liabilities because of an audit.
  - the reasons for any potential penalty imposed; and
  - the amicable steps to be taken first in tax disputes, prior to an official appeal.
- Reduce the number of disputes by:
  - regularly enhancing auditors' skills regarding core auditing techniques and the appropriate interpretation of relevant tax regulations.
  - monitoring the underlying causes of disputes (e.g., weaknesses in the auditing process or loopholes in specific legal/regulatory provisions), taking the necessary measures to

- address the root cause of the problem underlying each dispute (e.g., unclear administrative procedures, or laws and regulations that need to be amended); and
- collecting relevant administrative information, such as the number of cases received, number of cases resolved, value of disputed tax amounts, age of cases, nature of the issues involved, results of disputes, and the potential impact of the case(s) on the tax system.

### Procedural Reforms

Focus Area	Main Tasks	Timeframe
Closely monitoring the tax appeal process	<ul style="list-style-type: none"> <li>• Prepare a roster of dates to identify when administrative appeals are filed and when they are resolved, with the aim of settling disputes in a timely manner.</li> </ul>	2 months (High priority)
Informing taxpayers of their rights to object	<ul style="list-style-type: none"> <li>• Develop the necessary guidelines/information bulletins to effectively inform taxpayers of their right to object to audit results.</li> </ul>	1 week (Medium priority)
Monitoring the underlying causes of disputes	<ul style="list-style-type: none"> <li>• Prepare a monitoring mechanism to detect the underlying causes of disputes (e.g., weak audit procedures or loopholes in tax regulations), and take the necessary steps to address them.</li> </ul>	1 month (High priority)

### A-8 Reform Timetable and Priorities

The following preliminary timetable has been prepared in a manner that reflects the available resources of Yemen's tax administration, and it is based on extensive discussions with the authorities. The reform plan extends through March 2022.

Reform Area	Time Frame
Consolidating the taxpayer-registration procedures and ensuring the accuracy and reliability of taxpayer information	July 2021 – September 2021
Ensuring the timely filing of tax declarations	July 2021 – September 2021
Improving auditing procedures and the accuracy of reporting	July 2021 – March 2022
Ensuring the timely payment of taxes	July 2021 – September 2021
Streamlining the tax-dispute resolution and appeals processes	December 2021 – March 2022



# USAID ECONOMIC RECOVERY AND LIVELIHOODS PROJECT (ERLP) IN YEMEN

## DEBT – CENTRALIZATION OF PUBLIC DEBT DATA REPORTING IN YEMEN

### ANNEX 17

June 2021

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## List of Acronyms

CBY	Central Bank of Yemen
ERLP	Economic Recovery and Livelihoods Project in Yemen
DMFAS	Debt Management and Financial Analysis System
MOF	Ministry of Finance
MOPIC	Ministry of Planning and International Cooperation
UNCTAD	United Nations Conference on Trade and Development

## Executive Summary

This deliverable covers the following item in ERLP Year I Work Plan: *“Centralized data reporting framework/processes established within MOF, which effectively collate debt disbursement and obligation information from decentralized public sector spending units.”*

An assessment of Yemen’s public debt reporting conducted in June 2021 identified several major informational, technical, and organizational constraints problems, including:

- the lack of required data on external loans and grants
- the need for enhanced coordination between the Ministry of Finance (MOF), the Central Bank of Yemen, the Ministry of Planning and International Cooperation, and the decentralized public sector units
- the lack of the necessary knowledge base of staff working in the debt management area
- the absence of clear guidelines for data recording.

Centralization of debt data in one legal entity has proven to be an important factor in the success of the debt management offices for many countries. It helps maintain a comprehensive, accurate, and up-to-date debt database, which provides the basis for comprehensive reporting.

This paper provides guidance to help centralize data reporting at MOF. It proposes urgently needed guidelines to centralize the recording of debt and grants data at CBY and allow the Ministry of Finance to access them to produce debt- and grant-related reports.

The ERLP fiscal team has in this regard identified the essential steps that need to be taken for the centralization of data recording at CBY. The team has focused on requirements for more effective coordination between MOF, CBY, MOPIC, and the decentralized public sector units that have needed information about external loans and grants. ERLP’s analysis stresses the urgent significance of strengthened coordination between these parties to ensure access to accurate and timely data. This, in turn, will allow the counterparts to produce accurate reports. In response to these findings/recommendations, the joint MOF/MOPIC/CBY working group has been established to help coordinate all work in debt management. Effective operationalization of this breakthrough new debt planning/management entity will be the main support focus for ERLP moving ahead.

### Key Points for Debt Data Centralization Follow-Up on External Loan and Grant Data

Although some domestic debt data is available for Yemen, a significant portion of external debt data is still missing. MOPIC, with the help of the ERLP fiscal team, has in this regard sent letters in Q1 and Q2 to individual lenders to obtain copies of the external loan agreements. Some lenders have already replied, while some others have yet to respond (ERLP is working proactively with MOPIC to follow up on inquiries with these lenders as well).

Specific staff at MOPIC and at the decentralized public sector units should be responsible for following up with external creditors and donors in order to obtain the missing information on loans and grants.

## Coordination by MOF, CBY, MOPIC, and the Decentralized Public Sector Units

MOF, CBY, MOPIC, and the decentralized public sector units need to proactively coordinate on and share information on external loans and grants. Staff at MOPIC and the decentralized public sector units should be sending the information they already have or will receive from lenders and donors to CBY, which should record this information and share it with MOF. CBY and MOF have, in this regard, recently established an information-sharing protocol designed to enable MOF to access the current debt management information system used by CBY.

## Life Cycle of Debt Instruments

Staff who record, report, or analyze data on debt should have knowledge in commerce, finance, or economics. Otherwise, they should be provided with detailed technical training to understand debt management principles and debt instrument characteristics prior to performing their tasks. Every employee should be expected to have a comprehensive understanding of the debt instrument life cycle features, which represent a critical aspect of debt management. ERLP debt management experts will be providing detailed training sessions on these topics, designed to ensure all crucial components of the subject are addressed; and is working with the joint working group to ensure that the debt management system to be installed (DMFAS) is effectively configured to optimally incorporate full life cycle coverage features.

In this regard, the main menu of DMFAS is structured as follows.

Figure I: Loan Life Cycle

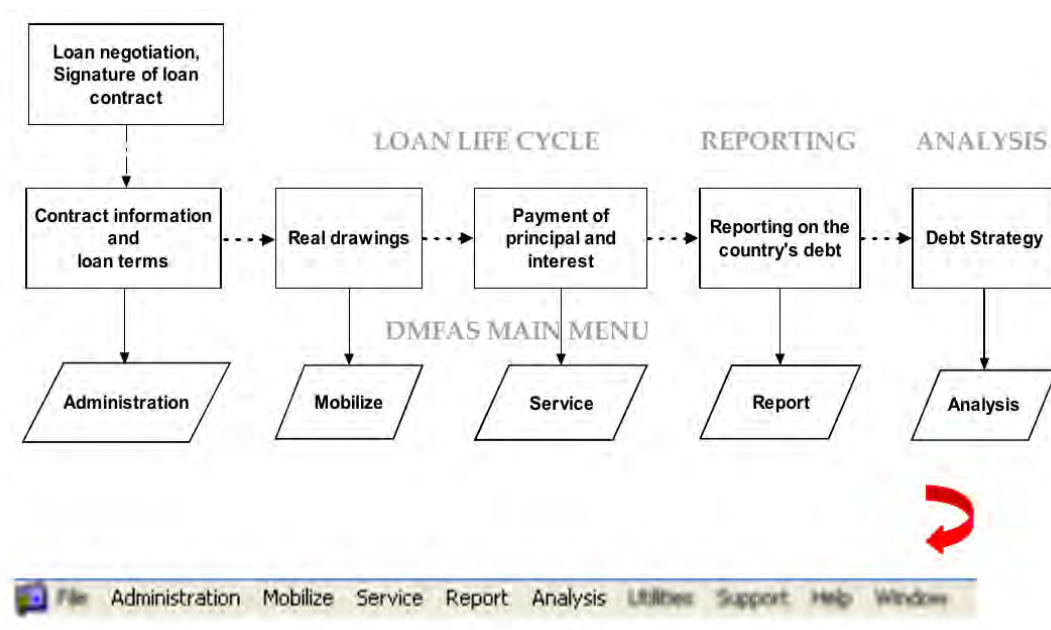


Figure I shows how DMFAS main menu follows the typical operational life cycle of a debt instrument. The red arrow is linking the life cycle stages with the titles of DMFAS main menu (Administration, Mobilize, Service, Report, and Analysis), which represent these stages.



The different debt management functions available in DMFAS, which explain the life cycle of debt instruments, are summarized as follows:

### ***Recording Function***

Details on debt and other instruments are registered in the Administration section of DMFAS. Based on contract information, amortization tables are calculated, and initial drawing estimates are made. The Administration section also contains a reference files menu in which the user enters information on daily exchange rates, variable interest rates, commercial interest reference rates, budget line identification numbers, and other parameters as well as creditors/debtors and other participants to the agreements.

### ***Operating Function***

As disbursements of loans or subscriptions of bonds take place, they are registered in the 'Mobilize' section of DMFAS, which can be programmed to automatically print drawing requests. If it is, all transactions related to the servicing of debt instruments—including operations on arrears, penalty interest, rescheduling, swaps, and so forth—are recorded in the Service section, which contains links to budget lines. The automatic registry of operations functions enables users to create blocks of payments, arrears, rescheduled arrears, or write-offs for a specified subset of debt instruments.

### ***Controlling and Monitoring Function***

To ensure the consistency of data for a particular debt instrument, DMFAS executes several automatic controls. Users can also produce validation reports to check the data, using the user-defined report facilities in the Report section of DMFAS. Debt managers can produce many reports for monitoring purposes using this function.

### ***Reporting Function***

DMFAS supports the production of Forms 1 and 2 of the Debtor Reporting System (DRS) that the World Bank requires from borrowing countries. It can generate a wide range of standard and customized reports and allows data to be easily transferred to Excel and in HTML format.

### ***Analytical Function***

Once information from loan, bond, and grant contracts has been added to the database, DMFAS becomes a powerful tool. As the software processes huge amounts of information on debt, it allows users to devote more time and energy to analytical tasks. The Analysis section enables debt managers to calculate projections based on outstanding and total commitments as well as the present values of future debt service obligations. They can quickly analyze the impact on the country's overall future debt burden from hypothetical changes in financial markets. DMFAS shows how taking on a new loan affects the total of debt service obligations and projects the impact of borrowing decisions of various entities on a country's global debt profile.

### ***Clear Guidelines for Data Recording***

Each institution's responsibilities need to be clearly defined. The designated staff at MOPIC and the decentralized public sector units should send the information they collect on external loans and grants to the back-office staff at CBY, who record the data on Excel spreadsheets prepared for each loan or

grant until DMFAS is installed. CBY staff will continue to be responsible for recording the data on DMFAS after DMFAS is installed.

Below are samples of the forms that could be filled by MOPIC and the decentralized public sector units to be sent to CBY:

Form AI is used to record basic loan information, such as the amount, currency, purpose, name, economic sector, signature date, effective date, closing date, debtor, creditor, administrative unit, name of beneficiary, and so forth.

**Figure 2: Form AI**

<b><u>FORM AI</u></b>			
<b>ID</b>	<b>Name of the reporting institution</b>	<b>Ref. no used by the reporting institution</b>	
0	<input style="width: 95%;" type="text"/>	<input style="width: 95%;" type="text"/>	
		<b>EntryDate</b>	<input style="width: 80%;" type="text"/>
<b>General Information</b>			
1. Financing Category <input style="width: 60%;" type="text"/>			
2. Registration ref no (Loan No) <input style="width: 30%;" type="text"/>		Sub-Loan no <input style="width: 30%;" type="text"/>	
<b>Control Data</b>			
1. Loan Structure <input style="width: 50%;" type="text"/>		2. IBRD no <input style="width: 50%;" type="text"/>	
3. Creditor Ref no <input style="width: 50%;" type="text"/>			
4. Exchange Pool <input style="width: 50%;" type="text"/>		5. Reorganization Group <input style="width: 50%;" type="text"/>	
<b>Loan Characteristics</b>			
1. Closing Date	2. Effective Date	3. Sign Date	4. Date of Authorization
<input style="width: 80%;" type="text"/>	<input style="width: 80%;" type="text"/>	<input style="width: 80%;" type="text"/>	<input style="width: 80%;" type="text"/>
5. Amount of the Loan/Facility	<input style="width: 95%;" type="text"/>		
6. Currency of the Loan	<input style="width: 95%;" type="text"/>		
7. Category	<input style="width: 95%;" type="text"/>		
8. Economic Sector	<input style="width: 95%;" type="text"/>		
9. Loan Purpose	<input style="width: 95%;" type="text"/>		
10. Name of the Loan	<input style="width: 95%;" type="text"/>		
11. Type of Agreement	<input style="width: 95%;" type="text"/>		
12. Repayment from GVMTbudget	<input style="width: 95%;" type="text"/>		
13. Currency of Repayment	<input style="width: 95%;" type="text"/>		
14. Base for Repayment	<input style="width: 95%;" type="text"/>		
15. Guaranteed by GVMT	<input checked="" type="checkbox"/>		

**Loan / Client Relations**

Country	Country Name	Rel	Number	Debtor's Name
				Creditor's Name
				Debtor's guarantor
				Creditor's guarantor
				Name of Beneficiary
				Administrative unit

CONTACT PERSON: \_\_\_\_\_

DATE: \_\_\_\_\_

Form A2 is used to record the loan service schedule (principal and interest repayment amounts and dates).

Figure 3: Form A2 (Service Schedules)

**FORM A2 (SERVICE SCHEDULES)**

ID	Name of the reporting institution	Ref no used by the reporting institution
<input type="text"/>	<input type="text"/>	<input type="text"/>
Debtor	<input type="text"/>	Loan no <input type="text"/>
Creditor	<input type="text"/>	Date of entry <input type="text"/>

**REPAYMENT OF PRINCIPAL**

Tranche	Method	Period	Medium	Amount	Percent	FirstDate	LastDate	Est
								v

**INTEREST PAYMENT DATES**

Tranche	Period	Medium	FirstDate	LastDate	Amount	Est
						v

Notes:

**CONTACT PERSON:** \_\_\_\_\_ **DATE:** \_\_\_\_\_

Form A3 is used to record information on interests and fees (interest type and rate, fee type and rate, dates of payment, and so forth).

Figure 4: Form A3 (Interest Rates)

<b>FORM A3 (INTEREST RATES)</b>								
ID	Name of the reporting institution			Ref no used by the reporting institution				
Debtor				Loan no				
Creditor				Date of entry				
<b>Regular interest rates</b>								
	Convert	Option	Variable rate		Fixed rate %	First Date	Last Date	
			Margin(+/-)	Rate Code				
▶								
<b>Penalty interest rates</b>								
	Convert	Option	Variable rate		Fixed rate %	Rate		
			Margin(+/-)	Rate Code				
▶	2	2						
Ratio of days used in interest calculations:				<input type="checkbox"/> IntRatio365/365 <input type="checkbox"/> IntRatio365/360 <input type="checkbox"/> IntRatio360/360	Late interest grace period in days:			
<b>Fees</b>								
	Fee	Fee Type	Method	Rate %	Rate in Amount	First Date	Last Date	
▶	▼							
<b>Fee Payment Dates</b>								
	Fee	Fee Type	Currency	Period	Medium	First Date	Last Date	Amount
▶	▼		▼					

Form C is used to record disbursements (amount and currency).

Figure 5: Form C (Disbursement Reporting)

**FORM C (DISBURSEMENT REPORTING)**

ID	Name of the reporting institution	Ref no used by the reporting institution
<input type="text"/>	<input type="text"/>	<input type="text"/>
Debtor	<input type="text"/>	Loan no <input type="text"/>
Creditor	<input type="text"/>	Tranche <input type="text" value="1"/>
Entry date	<input type="text"/>	Value Date <input type="text"/>

	DisbCur	Disb.Amount
Disbursement of principal	▼	<input type="text"/>

**SERVICE SCHEDULE**  
 This schedule has to be filled in only if this disbursement has a unique repayment schedule

**1. Regular Repayments**

Period	Medium	Percent	Amount	First Date	Last Date	Est
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	▼

**2. Irregular Repayments**

Medium	Percent	Amount	First Date	Est
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	▼

**Interest payment dates**

Period	Medium	First date	Last date	Est
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	▼

Comments

CONTACT PERSON:  DATE:

Form B (Single Tranche) is used to record principal and interest payments of single-tranche loans (loans with a single currency and amortization schedule).

**Figure 6: Form B (Single Tranche)**

**FORM B (Single Tranche)**

ID	Name of the reporting institution	Ref no used by the reporting institution
<input type="text"/>	<input type="text"/>	<input type="text"/>
Debtor	<input type="text"/>	Loan no <input type="text"/>
Creditor	<input type="text"/>	Tranche <input type="text"/>
Date of entry	<input type="text"/>	Scheduled date <input type="text"/>
Type	<input type="text"/>	Value date <input type="text"/>

BKey

	Currency	Amount in original currency
Payment of Principal	▼	
Interest Payment		
Commitment Fee		
Management Fee		
Insurance Fee		
Delay Interest		
Others		
<b>Total</b>		0.00

Comments

CONTACT PERSON:  DATE:

Form B (Multiple Tranche) is used to record principal and interest payments of loans that have more than one tranche (more than one amortization schedule). Different tranches may have the same or different currencies.

**Figure 7: Form B (Multiple Tranche)**

**FORM B (Multiple Tranche)**

<b>ID</b>	<b>Name of the reporting institution</b>	<b>Ref no used by the reporting institution</b>
<input type="text"/>	<input type="text"/>	<input type="text"/>
<b>Debtor</b>	<input type="text"/>	<b>Loan no</b> <input type="text"/>
<b>Creditor</b>	<input type="text"/>	<b>Scheduled date</b> <input type="text"/>
<b>Type</b>	<input type="text"/>	<b>Value date</b> <input type="text"/>
		<b>Date of entry</b> <input type="text"/>

	Tranche	Cur	Principal	Interest
▶	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

**Comments**

**CONTACT PERSON:**  **DATE:**



These forms can be submitted daily, weekly, or monthly, based on the number of operations taking place. Electronic submission is recommended.

After receiving the forms, CBY staff should update the Excel files on each loan. Figure 8 indicates the fields to be filled.

**Figure 8: Excel Sheets of Loans**

LOAN GENERAL INFORMATION			
Instrument ID	Name	Loan Amount	Loan Currency
Signature Date	Effective Date	Authorization Date	Date Drawing Limit
Debt Source	Purpose	Economic Sector	Concessionally
Domestic, External	Project Financing, Emergency, and Food, Program Support, Debt Reorganization, Multiple Purpose, Other		Official Development Assistance (ODA), Non-ODA, Concessional, Non-concessional, Market Terms
Debtor	Creditor	Administrative Unit	Beneficiary
Tranche Management			
Single Tranche, Unknown Tranches, Known Tranches			

TRANCHE INFORMATION			
Instrument ID	Tranche Number	Tranche Amount	Tranche Currency
Principal Payment Periodicity	Principal First Payment Date	Principal Last Payment Date	Amount
Annual, Semiannual, Quarterly, Irregular			
Interest Type	Interest Rate	Spread	Interest Start Date
Fixed, Variable			
Base Year	Base Month		
Interest Payment Periodicity	Interest First Payment Date	Interest Last Payment Date	Amount
Annual, Semiannual, Quarterly, Irregular			

COMMISSION TERMS			
Commission Type	Commission Amount	Base Year	Base Month
Commission Start Date	Commission Payment Periodicity	First Payment Date	Last Payment Date
	Annual, Semiannual, Quarterly, Irregular		

DISBURSEMENTS			
Instrument ID	Tranche Number	Disbursement Amount	Currency
Date of Disbursement			

PRINCIPAL PAYMENTS			
Instrument ID	Tranche Number	Principal Payment Amount	Currency
Date of Payment			

INTEREST PAYMENTS			
Instrument ID	Tranche Number	Interest Payment Amount	Currency
Date of Payment			

COMMISSION PAYMENTS			
Instrument ID	Tranche Number	Commission Payment Amount	Currency
Date of Payment			

Filling the above fields on Excel sheets facilitates transfer of data to DMFAS later. Once the DMFAS tool is operational, all updates will be performed on the system. Domestic debt data can also be transferred to or recorded on DMFAS when it is installed.

### Data Reporting and Analysis

The ERLP supported information-sharing protocol that has recently been established by CBY and MOF enables MOF to access CBY's current debt management information system. Data reporting and analysis should be done using DMFAS reporting and analysis modules. The system can generate the following reports:

- Standard operational reports, which are built in the system prepared by the DMFAS program programmers. They include loan/on-lent loan/debt security, grant information sheets, amortization tables, account statements, tranche/series information sheets, and debt security subscription summaries.
- Managerial and analytical reports, in which the user-defined report tool is used to generate reports on stocks, flows, and projections.
- Data validation reports, in which the validation queries are used to validate/correct the DMFAS 6 database.
- Reports used for to prepare the Statistical Bulletin.
- World Bank reports (Forms 1 and 2).
- Debt ratio reports.
- Financial indicators report (Grant Element and Average Terms reports).
- Sensitivity analysis reports (projections based on different exchange rate and interest rate scenarios).



# USAID ECONOMIC RECOVERY AND LIVELIHOODS PROJECT (ERLP) IN YEMEN

## DEBT - PROCEDURAL GUIDANCE TO SUPPORT REINSTALLATION OF DMFAS

### ANNEX 18

June 2021

**DISCLAIMER** This report was produced for review by the United States Agency for International Development (USAID). It was prepared by the USAID Economic Recovery and Livelihoods Project (ERLP) implemented by The Pragma Corporation. The views expressed in this publication do not necessarily reflect the views of USAID or the US Government.

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## List of Acronyms

CBY	Central Bank of Yemen
ERLP	Economic Recovery and Livelihoods Project in Yemen
DMFAS	Debt Management and Financial Analysis System
MOF	Ministry of Finance
MOPIC	Ministry of Planning and International Cooperation
UNCTAD	United Nations Conference on Trade and Development

## **INTRODUCTION**

A previous review of the Yemeni public debt database status underscored the overriding importance of acquiring and installing a comprehensive debt management system, in order to ensure that public debt data are saved and recorded on a reliable system. Maintaining public debt data systematically and accurately helps governments track and meet their debt obligations on a timely basis. Before 2014, Yemen's public debt data were recorded on DMFAS. In 2014, the official government moved to Aden, but the data on public debt was not transferred from Sanaa, and the use of DMFAS in Sanaa was suspended.

Debt data in Aden are currently recorded in Excel files. The decision to reinstall DMFAS was taken after the United Nations Conference on Trade and Development (UNCTAD) provided an offer that CBY approved. This paper proposes procedural guidance for reinstalling DMFAS at CBY.

## **I. HARDWARE REQUIREMENTS**

UNCTAD provides all the information about the requirements of DMFAS 6, which are as follows:

The DMFAS 6 system was designed using three-tier architecture in which the back-end tier stores the data in a database server, the middle tier runs an application server that handles most of the processing, and the user-facing tier runs on users' computers. It is also possible to install the database and the application server on the same server. Which configuration makes more sense depends on the needs of the institution (for example, the number of debt instruments, the type of instruments, the number of users, the workload of the machine, the projected use of the system, and other parameters). The recommendations in this report are based on a configuration in which one server hosts the database and a separate one hosts the application server software and components of DMFAS 6.

The DMFAS system runs on every platform compatible with the latest Oracle releases (11gRx, 12cRx, MS WS 2012 SP2; where x stands for Release 1 or 2) on the Linux, Unix, Solaris, and AIX operating systems. Additional memory, processor speed, and disk space may be needed if other software is installed. Hardware specifications for servers running another network operating system should have equal performance and capacity and must be compatible with Oracle's relational database management system (RDBMS). Automatic detection software for monitoring updates and proactive support notifications is recommended.

**Table 1: Hardware Specifications for Database and Application Server**

Component	Specifications
CPU <sup>a</sup>	Intel/ Core i(7/9) 8 <sup>th</sup> –10 <sup>th</sup> generation, four or more GHz series processors
Hard disk	3 x 480 GB or more SATA, NVMe, SSD, or SAS 15K rpm with data striping through RAID X (mixed drive types allow matching type/speed/capacity)
DVD-ROM	DVD+/-RW
RAID/internal controller	PERC H(x)
Memory	32–128 GB DIMM/LRDIMM/RDIMM
Screen/video adapter	17-inch flat-panel with an integrated video card with 1GB or more
Backup streamer	Digital tape streamer with the same capacity as total disk space
NIC	One or more network cards supported by network installed with q capacity of
General	If the server is a stand-alone computer, it can be a tower model or a model suitable for placement on a rack. Either should have a scalable internal capacity and be flexible enough to adapt to changing workload conditions. Local technical support is strongly recommended.

<sup>a</sup> Any 100% Intel-compatible processor, such as AMD, can be used, if it delivers equal or better performance.

DMFAS 6 is written in Java and uses the services of a JSP-compliant web application server. As such, there are no specific requirements on the hardware platform other than those of the web application server software itself. The server configuration is based on Windows 2012/2016 or Unix/Linux server functioning as an application server only. Additional memory and disk space may be needed if other software is installed (e.g., database or other applications running on the same application server). Automatic detection software for monitoring updates and proactive support notifications is recommended. Hardware specifications for servers running another network operating system should have equal performance and capacity.



**Table 2: Hardware Specifications for Workstations (Desktops/Laptops)**

The following table indicates the workstation requirements. The “Specifications” column specifies the components for running DMFAS effectively.

Component	Specifications
CPU <sup>a</sup>	Intel® / Core i (7/9) 4-10 Core, 8 <sup>th</sup> to 10 <sup>th</sup> Gen, 4 GHz or more
Hard disk	500 GB or more SATA/SSD 7.2 rpm
DVD+/-RW	16 speed or faster
Memory	8 GB or more DDR4 DIMM or UDIMM
Screen/Video adapter	1 GB RAM or more, 17/19” Flat Panel
NIC	Network card supported by the network installed
PC in general	Plug and Play ready (Windows 10 or Mac not using Safari), Flash BIOS, local service available

**Table 3: Hardware Specifications for Printer**

Component	Description
Type	OS compatible laser printer
Format <sup>4</sup>	A4 (210 mm x 297 mm), duplex printing, and A3
Language	PCL6e or newer and Postscript
Capacity	12 – 16 ppm
Resolution	600 dpi

**Table 4: Hardware Specifications for Accessories**

Component	Description
UPS	For the servers (and, if necessary, for the workstations)
Hub or, even better, a switch	For connecting the server, workstations, and printer
Backup Media	For the streamer(s)
Cartridges	For the printers
Paper	For the printers

Note: All standard DMFAS 6 reports fit on A4 paper (210 mm x 297 mm) in portrait or landscape orientation. For country-specific or customized reports, a printer with a capacity for larger paper sizes provides more flexibility.

## 2. SOFTWARE REQUIREMENTS

### SERVER SOFTWARE

#### *Network operating system*

For the database server, any network operating system that supports Oracle's RDBMS version can be used. The expertise for administering and maintaining the network should already exist at CBY. Until now, the Oracle DMFAS 6 database has been installed and tested under Windows 2012 and 2016 (64 bits), Linux and UNIX. The DMFAS program in Geneva uses Windows 2012/2016 server as a reference platform.

The DMFAS program certifies the platforms MS WS 2012, 2016, and Linux Centos 7 as operating systems. For any other operating system, the user must contact the DMFAS program for more information. DMFAS 6 is targeted for platforms using any Apache Tomcat V7 (open source) and JDK 6 or 7. Installation of antivirus and malware protection software is strongly recommended.

DMFAS 6 is targeted for platforms using the Oracle RDBMS version 11gR2 or 12cRx. Two RDBMS products are available, Standard Edition 2 or Enterprise Edition. For a new installation or an upgrade up a previous DMFAS installation, we recommend buying Oracle 12cRx Standard Edition 2 because of its price. The Enterprise Edition is suitable for installations supporting 25 users or more and/or features of the product that are needed to comply with specific requirements.

### SOFTWARE FOR WORKSTATIONS

DMFAS 6 uses standard web browser software supporting the Java programming standards (CSS2, AJAX, Java, & JavaScript), including support for multilanguage characters, such as Internet Explorer 11, Mozilla Firefox, or Chrome (for the Arabic interface, the system must also

consider data entry from right to left and the inversion of data entry forms). Installation of antivirus and malware protection software is strongly recommended

Internally, the DMFAS 6 software uses the open-source business intelligence and reporting tool Eclipse BIRT, which provides a professional set of reporting features (e.g., the possibility to produce graphs and export to PDFs). This open-source software can be installed with DMFAS version 6. Unlike an Oracle reporting tool, BIRT is free.

Under the terms and conditions of any open-source tool, Eclipse BIRT can be installed on any DMFAS client to create reports. However, it is advisable to install it on the computer of a technical or advanced functional user, to prepare the reports required by the debt office. These reports can be later centralized on the application server and executed by any DMFAS client.

The following additional products are needed to integrate the DMFAS 6 software with reporting tools:

- Adobe Acrobat Reader (may be required for viewing/printing reports)
- Office tools (spreadsheet, word processor)
- Java SE (JDK or JRE) 6 or 7.

## PRICES AND LICENSING

Table 5 shows the prices of the Oracle I2cR2 Standard Edition, the Oracle product needed to run DMFAS 6. It serves two sockets and four-core processors. Institutions with more than four processors will have to acquire Oracle Standard Edition 2; the price may vary based on the number of processors.

**Table 5: Prices of Oracle I2cR2 Standard Edition (US\$)**

Charge	Price for a perpetual license	Annual maintenance year
Five users minimum	1,750 + 350 per named user	385 + 77 per named user
Per processor	17,500	3,850

*Note:* Prices are based on the price list published in September 2020.

The choice of Oracle products depends on the institution's needs. An institution with 25 users or more accessing one Oracle database should acquire one Oracle license per processor. An institution with only five users accessing one Oracle database should acquire one Oracle license per named user plus.

All critical hardware and software should be covered by a warranty or maintenance agreement (also known as a service agreement). During the warranty period, repair or replacement is the

responsibility of the supplier, if defects occur during normal use. The warranty can be extended when it expires.

For every Oracle product license bought, CBY should also purchase an annual maintenance contract. Depending on the type of support purchased, it may cover hotline telephone or web support Metalink, which is a service provided by Oracle to customers who want any sort of technical assistance. The maintenance agreement also includes a free upgrade of the Oracle product.

### **3. TRAINING REQUIREMENTS**

Two training modules are recommended: training in Oracle database administration and training in application server administration. Just one or two staff members need to be trained in each. Training in database administration should cover database installation and upgrading, the physical structure of an Oracle RDBMS, and the administration and tuning of an Oracle database. Training in application server administration should cover the physical structure of the application server components, and the administration and maintenance of the application server itself. After system installation, UNCTAD will carry out many relevant database administration tasks.

#### **SOFTWARE TRAINING**

Two employees from the IT departments of CBY and the Ministry of Finance (MOF) should be present when DMFAS 6 is installed. After being trained in the installation and maintenance of the system, they will be responsible for maintaining DMFAS at CBY and MOF. UNCTAD will continue to support them if needed, per the agreement to be signed by UNCTAD and CBY.

#### **BASIC FUNCTIONAL TRAINING**

All CBY and MOF employees that will be using DMFAS 6 -- particularly those that will be working in the back office of CBY -- should attend the basic functional training sessions, which will cover the following:

- Recording of reference files (exchange rates, participants, interest rates).
- Recording of debt instruments (general information, tranches, commissions, real drawings, debt service operations).
- Recording of grants (general information and real drawings).
- Use of business-day convention, capitalization, deferred payments, prepayment, and buy-backs.
- Generation of standard (control) reports, on, for example, loans, on-lending, debt security, grant information sheets, amortization tables, account statements, tranche/series information sheets, and debt security subscription summaries.

- Use of system utilities, such as copy, delete, renumber instruments, and automatic recording of operations.
- Correction of common amortization tables anomalies.
- Overview of functional aspects of DMFAS parameters, security features, and auditing.

After DMFAS 6 is installed, and the basic functional training is delivered, data transfer will take place. If the data on Excel sheets contain all the fields required by DMFAS 6, they can be automatically transferred from Excel to DMFAS. If this is not the case, CBY back-office employees will have to transfer the data manually.

### ADVANCED FUNCTIONAL TRAINING

All CBY and MOF employees that will be using DMFAS 6, particularly those that will be responsible for reporting, should attend the advanced functional training sessions. These will cover the following:

- Standard operational reports for loans and debt securities.
- Managerial and analytical reports (use of user-defined reports tool to generate stocks, flows, and projections reports).
- Use of the background procedures functions when calculating projections on outstanding sets, accrued interest sets, and present value calculation sets.
- Reporting to the World Bank using Form 1 and Form 2.
- Use of validation queries in validating and correcting the DMFAS 6 database.
- Overview of standard statistical bulletin used as a tool for the debt statistics workshop.
- Generation of debt ratio reports.
- Generation of financial indicators (grant element report and the average terms reports).
- Use of sensitivity analysis, including calculation of projected interest based on various exchange rate and interest rate scenarios in user-defined reports

After advanced functional training has been completed, any remaining data that have not yet been recorded on DMFAS should be recorded there, to produce complete reports.

### MORE ADVANCED WORKSHOPS

At a later stage, more specialized workshops/training could be conducted. These could include the following:

- A data validation workshop aims to improve the capacity of the debt office to adopt organizational arrangements, including internal procedures, that would ensure the quality and reliability of debt data.

- A debt statistics workshop introduces the main issues related to the production of a debt statistical bulletin. It covers the latest standards for international debt statistics, and the development of a draft proposal for the establishment of a debt statistical bulletin.
- A debt portfolio analysis workshop aims to improve the capacity of public debt managers, in order to assess the structure, dynamics, and risks of sovereign debt portfolios.
- A procedures workshop provides debt offices with the keys to sound-decision making and helps them make the right procedural choices, fosters ownership of the methodology for developing procedures, and promotes best practices for producing efficient and sustainable procedures.



# ECONOMIC RECOVERY AND LIVELIHOODS PROGRAM (ERLP)

## YEMEN

Budget Planning - Summary of Budget Circulars and  
Related Procedural Guidelines for Initial Preparation of  
the CY 2022 Budget

Annex 19

June 2021

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USAID/Yemen - Economic Recovery & Livelihoods Program (ERLP)  
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## CY2022 BUDGET CIRCULAR SUMMARY (IN ENGLISH)

The ERLP team has worked with MoF to develop the CY2022 budget circular, which contains nine key sections. This circular provides the fundamental guidelines required for preparing the national budget. The guidelines are to be followed by the central government and all spending units at the central and local levels.

ERLP coordinated closely with relevant MoF staff to ensure that the developed circular is based on PFM best practice principles, while remaining consistent with the overarching fiscal laws and regulations of Yemen. The draft circular, developed in Arabic, includes below nine (9) key elements that combined constitute the general guidelines for individual spending units, which are summarized in English below):

- 1) **Framework for formulating the State budget.** The framework addresses prevailing political, economic, institutional, and social conditions to determine the economic, fiscal, and monetary interventions necessary to achieve economic stability. These include resuming the production and export of oil and gas from existing oil and gas fields; encouraging the return of foreign companies operating oil and gas fields; boosting public investment; and strengthening core public financial management functions.
- 2) **Key economic assumptions.** These postulate an anticipated partial economic recovery despite ongoing internal conflict, and the compounding social and economic impacts of the COVID-19 pandemic. The improvement in economic activity is, in turn, based in part on the formation of a functioning government and increased public investment levels. For CY2022, a 2.8 percent increase in real growth is forecast, a 10 percent inflation rate, and a budget deficit equal to approx. 5 percent of GDP.
- 3) **Economic and fiscal policies.** The FY 2022 budget incorporates four key objectives: 1) rebuild and develop Yemen's public administration system; 2) mobilize public resources to increase growth and employment; 3) enhance social justice, and 4) enhance financial and economic stability.
- 4) **Core fiscal reforms in the CY2022 budget.** The core reform focus in the revenue area is on enhancing tax administration capacity and performance through introduction of major institutional and administrative reforms in key functional areas; and developing a multi-year revenue enhancement strategy in the direct and indirect tax areas; as well as implementation of key custom reforms. Envisaged public expenditure reforms include promoting social protection objectives, and strongly encouraging public-private partnership activities in key public service provision areas. It underscores enhanced budget prioritization through introduction of MTEF processes in the education and health sectors; and the utilization of GFS-compliant functional classification structures that help better link major public policy objectives to budgetary allocations. Enhanced management of the budget deficit, decreased reliance on CBY overdraft facilities, and improved coordination of fiscal and monetary policy formulation processes are also strongly emphasized, particularly from the vantage point of promoting the attainment of critical macroeconomic stability objectives.
- 5) **General guidelines for the formulation of the State budget.** This provides guidance for spending agencies on key determinants of the budget formulation process, including compliance with overarching fiscal laws and procedures and provision of the required documentation from spending units for purposes of submitting their respective draft budgets.

- 6) **Targeted guidelines for formulation of the State budget.** These include the funding and fiscal authority-related restrictions and limitations which central and local agencies should take into account in assessing their expenditure priorities.
- 7) **Directions and foundations for budget estimates.** These cover the definitions of budget line-items under each revenue and expenditure chapter, and provide projection approaches and methodological guidance for each line item.
- 8) **Directions and foundations for public expenditures estimates.** These focus on delineation of procedures for assessing expenditure needs for key chapters of the State budget.
- 9) **Timeline for submitting the FY 2022 draft budget.** The circular includes detailed timelines for submission and discussion of the draft CY2022 budget, with each timeline provided in the circular established in accordance with the Constitution and Fiscal Law of Yemen. This circular will mark the first time since the re-initiation of conflict that the GOY will be following a clear fiscal calendar

كتاب دوري رقم (.....) لسنة 2021  
بشأن  
إعداد مشروع الموازنة العامة للدولة للسنة المالية 2022

أولاً: الإطار العام لإعداد مشروع الموازنة العامة للدولة

يأتي إعداد موازنة العام المالي 2022 في ظروف الصراع التي تظهر الحاجة لإطار اقتصادي شامل ومرن يتماشى مع ضعف مؤسسات الدولة في ظل الحرب. حيث يكون على الحكومة تنفيذ عدد من التدخلات الطارئة والمشاريع التنموية بصورة غير منسقة، ولا تنطلق في بعض الأحيان من رؤية واحدة تسعى لتحقيق أهداف إنمائية مخططة.

من جانب آخر فإن إعداد موازنة 2022 يقوم على تفهم مفاده أن دور الموازنة العامة لا يقتصر فقط على توفير واشباع الخدمات الأساسية العامة كالتعليم والصحة والكهرباء والامن والبنية التحتية وغيرها من الحاجات العامة، وإنما بالإضافة الى ذلك فهي تمارس دوراً تنموياً في تنمية النشاط الاقتصادي وتشجيع القطاع الخاص وتحفيز النمو الاقتصادي وتنمية الموارد البشرية والمساهمة في تخفيض معدلات الفقر والبطالة. ومن الأهمية بمكان الربط بين الإطار الاقتصادي الكلي والموازنة باعتبار الأخيرة هي أهم أدوات تحقيق اهداف خطط التنمية الاقتصادية والاجتماعية.

في الوقت نفسه ستتعامل موازنة 2022 مع ظروف استثنائية شديدة التعقيد والصعوبة على كافة المستويات الاقتصادية والسياسية والأمنية والإنسانية بما في ذلك الجائحة الصحية العالمية كوفيد 19 وتداعياتها الاقتصادية والاجتماعية حيث تراجعت كل المؤشرات الاقتصادية والمالية والنقدية، وباتت الموازنة محملة بالتزامات واعباء مالية تتجاوز الموارد المحتملة التي هي الأخرى تراجعت على نحو شديد وبالتالي تدهورت قدرة الموازنة على توفير مخصصات مالية كافية للقطاعات التعليمية والصحية وبرامج الصيانة والتشغيل فضلاً عن متطلبات إعادة الاعمار والتعافي الاقتصادي وحفز النمو الاقتصادي.

ووفقاً لتحليل وزارة التخطيط والتعاون الدولي فإن هناك مجموعة من القضايا الرئيسية المرتبطة بالإطار الاقتصادي والسياسات الاقتصادية، المالية والنقدية وسياسات التعافي والنمو وإعادة الاعمار وتوقعات النمو، والتي يجب على موازنة العام المالي 2022 التعامل معها، وذلك على النحو الآتي:

- انكماش النشاط الاقتصادي وتراجع قدرات الاقتصاد الإنتاجية وتبديد طاقاته المادية والمالية والبشرية نتيجة للظروف الاستثنائية التي تمر بها الدولة.
- تراجع موارد النقد الأجنبي بسبب توقف انتاج وتصدير النفط والغاز، وتراجع تحويلات المغتربين، وتناقص تمويلات المانحين بالإضافة الى خروج الاستثمار والشركات الأجنبية وخروج جزء من رؤوس الأموال الخاصة.
- التقلبات الحادة في سعر الصرف والناجمة عن انخفاض مصادر النقد الأجنبي وضعف الرقابة على أداء الجهاز المصرفي وشركات الصرافة وخاصة في المناطق التي ليست تحت سيطرة الشرعية بالإضافة الى الإصدار النقدي غير المغطى مما يؤثر سلباً على قيمة العملة المحلية والتضخم وبالتالي على فرص تعزيز النمو الاقتصادي.
- تفاقم أزمة المالية العامة وتنامي الدين العام نتيجة تفتت الأوعية الضريبية وتراجع الإيرادات العامة وانخفاض عائدات الصادرات النفطية والغازية الى مستويات متدنية جداً بالإضافة الى تزايد الدين.
- تدهور منظومة الخدمات الاجتماعية الأساسية. فقد تعرضت قطاعات الخدمات الاجتماعية الأساسية للتدمير في منشئاتها وبنيتها التحتية نتيجة اتساع دائرة الحرب والصراع، وبالتالي تدهورت قدرتها على تقديم الخدمات للمجتمع، بما فيها المنشآت التعليمية والصحية والمياه والكهرباء والنقل والطرق، وخاصة في مناطق المواجهات العسكرية.

- ارتفاع معدلات الفقر والبطالة حيث وصلت نسبة الفقر بحسب نتائج مسح ميزانية الأسرة 2014 إلى 48.5% من حجم السكان ثم قفزت نسبة الفقر في عام 2016 إلى حوالي 78% من حجم السكان. وتنامي ظاهرة البطالة وخاصة بين الشباب.
- تفاقم الأزمة الإنسانية وتزايد الاحتياجات الإنسانية: فهناك حوالي 24 مليون نسمة يحتاجون إلى مساعده إنسانية منهم 17 مليون نسمة يعانون من انعدام الأمن الغذائي. كما ان هناك أكثر من ثلاثة ملايين نازح داخلي فقدوا أصولهم الإنتاجية وسبل معيشتهم ويعيشون أوضاعا صعبة حيث يفتقرون إلى الحاجات الأساسية.

وفي ظل هذا الوضع المعقد، ستكون موازنة العام المالي 2022 السبيل الأساسي لتنفيذ حزمة من التدخلات والسياسات الاقتصادية والمالية والنقدية والإجراءات التي ينبغي تبنيها لتحقيق التعافي والاستقرار الاقتصادي وتحفيز النمو الاقتصادي وإيجاد فرص عمل لعل من أبرزها ما يلي:

- استئناف الإنتاج والتصدير الكامل للنفط والغاز من الحقول النفطية والغازية الحالية وتشجيع عودة الشركات الأجنبية العاملة في مجال النفط والغاز.
- رفع مخصصات البرنامج الاستثماري في الموازنة العامة (الانفاق الاستثماري والرأسمالي) الى مستويات مناسبة من النفقات العامة.
- توجيه المساعدات وتدخلات المانحين نحو الجوانب التنموية المولدة لفرص العمل والداعمة للنشاط الاقتصادي مع توجيه التدخلات الاغاثية والإنسانية بما يعزز سبل المعيشة وتنمية الأنشطة ذات البعد المستدام.
- دعم المشروعات المتوسطة والصغيرة والاصغر في مجالات الزراعة والاسماك والصناعة وحاضنات الاعمال.
- دعم قطاع الصادرات وخاصة السلع الزراعية والسلمكية والمواد الأولية ومعالجة العوائق التي تعيق التصدير وخاصة الى أسواق دول مجلس التعاون الخليجي.
- تعزيز القدرات التشغيلية للمؤسسات الحكومية من خلال توفير موازنة تشغيلية للمؤسسات وانتظام دفع المرتبات لموظفي الدولة .
- البدء في إعادة اعمار البنية التحتية التي تأثرت بالحرب وحشد موارد تمويلات كافية من المانحين الإقليميين والدوليين.
- توفير الوصول الي آلية لتمويل الواردات على نطاق أوسع لتحفيز الإنتاج في القطاعات الاقتصادية المختلفة.
- تعزيز قدرات الإدارة المالية على تحصيل وتنمية الموارد السيادية وخاصة الضريبية والجمركية وتوريد ها الى خزينة الدولة.
- دعم القدرات الإحصائية لإنتاج البيانات الإحصائية والمسوحات الدورية ومؤشرات التنمية بصورة عامة

### ثانياً: أهم الافتراضات الاقتصادية

بالرغم من استمرار الظروف الاستثنائية غير المواتية وإستمرار التعطل الجزئي لبعض القطاعات الاقتصادية نتيجة تفشي فايروس كورونا وتداعياته الاقتصادية والاجتماعية الا انه مع ذلك من المتوقع ان يستعيد الاقتصاد بعض عافيته ويتوقع ان يحقق الاقتصاد نموا اقتصاديا حقيقيا في عام 2022 بحوالي 2.8% (انظر جدول 1) نتيجة عدد من العوامل الإيجابية والافتراضات ومنها تشكيل حكومة الكفاءات السياسية وعودتها الى عدن لمزاولة عملها من الداخل وتنفيذ برنامجها الذي يضع الجانب الاقتصادي في صدارة أولوياتها وتحسن النسبي في قطاع الخدمات الأساسية والبدء في إعادة الاعمار في بعض قطاعات البنية التحتية وتوقع تدفق بعض الموارد المالية من المانحين ومن تصدير النفط والغاز، وتنفيذ اتفاق الرياض بجوانبه الاقتصادية والعسكرية بالإضافة الى توقع الحصول على وديعة جديدة ليتمكن البنك المركزي من استخدام أدوات السياسة النقدية المتاحة في إستقرار سعر الصرف والسيطرة على معدل التضخم عند حدود 10% .

جدول (1) تقديرات وتوقعات الناتج المحلي الاجمالي بطريقة الانفاق (مليون ريال)

2021* / * 2022	**2020	**2019	*2018	*2017	*2016	*2015	
8,129,182	7,504,830	6,957,291	6,355,246	5,869,474	6,133,358	6,381,439	الاستهلاك النهائي الكلي
1,373,149	1,241,433	1,138,929	956,771	793,967	935,745	584,830	الاستثمار الإجمالي
- 2,028,633	- 1,854,525	- 1,836,900	- 1,580,561	- 1,473,409	- 1,752,165	- 1,237,239	ميزان السلع والخدمات:
475,977	496,225	496,225	532,868	466,629	224,252	402,573	إجمالي صادرات السلع والخدمات
2,459,339	2,350,750	2,333,125	2,113,429	1,940,038	1,976,417	1,639,811	إجمالي واردات السلع والخدمات
7,470,560	6,891,737	6,259,320	5,731,456	5,190,032	5,316,938	5,729,031	الناتج المحلي الاجمالي الجاري
هيكل الناتج المحلي الاجمالي %							
108.8	108.9	111.2	110.9	113.1	115.4	111.4	الاستهلاك النهائي الكلي
18.4	18.0	18.2	16.7	15.3	17.6	10.2	الاستثمار الإجمالي
-27.2	-26.9	-29.3	-27.6	-28.4	-33.0	-21.6	ميزان السلع والخدمات:
6.4	7.2	7.9	9.3	9.0	4.2	7.0	إجمالي صادرات السلع والخدمات
32.9	34.1	37.3	36.9	37.4	37.2	28.6	إجمالي واردات السلع والخدمات
100.0	100.0	100.0	100.0	100.0	100.0	100.0	الناتج المحلي الاجمالي الجاري
الرقم القياسي الضمني							
629.8	755	74.15	490.6	438.3	404.3	372.0	الناتج المحلي الاجمالي الحقيقي (مليون ريال)
1,186,893	1,198,762	1,216,743	1,168,250	1,184,179	1,315,199	1,540,147	

6.8	10.1	9.2	10.4	2.4-	7.2-	19.8-	نمو الناتج المحلي الإجمالي الجاري %
2.8	-1.0	1.4	1.3-	10.0-	14.6-	30.5-	نمو الناتج المحلي الإجمالي الحقيقي %
10.0	10.0	10.0	30.7	18.0	11.9	23.9	معدل تضخم أسعار المستهلك نهاية الفترة %
*المصدر: الجهاز المركزي للإحصاء							
**توقعات فريق التوقعات ووزارة التخطيط والتعاون الدولي							

وثمة افتراضات أخرى وفقاً لوزارة التخطيط والتعاون الدولي تدعم هذه التوقعات ومنها:

اعداد البرامج الاستثماري لمشروع موازنة 2021 بتكلفة مقترحة تصل الى 25% من الانفاق العام لتعزز النمو الاقتصادي فهناك حوالي 194 مليار ريال موارد مؤكدة بالإضافة الى مشاريع أخرى يجري تنفيذها وتمويلها من قبل بعض المانحين والتي لا تتوفر بيانات عنها حالياً. كما ان ثمة مخصصات رأسمالية على مستوى السلطة المحلية.

انتظام دفع مرتبات موظفي الدولة وخاصة في المناطق التي تحت سيطرة الحكومة الشرعية وبعض القطاعات الأخرى التي لازالت خارجة عن سيطرة الشرعية مع احتمال التوصل الى معالجة شاملة لقضية المرتبات وفق اتفاق "استكهولم"

التحسن النسبي في تحصيل الموارد المالية والبدء في تصدير كميات محدودة من النفط الخام

إمكانية الوصول نسبياً إلى الخدمات الاجتماعية الأساسية في التعليم والصحة والمياه في معظم المناطق

التوسع في انتاج واستخدام الطاقة البديلة لأغراض الانارة والتجارة والانتاج وخاصة في القطاع الصناعي والزراعي

تنفيذ عدد من المشاريع الطارئة ذات الاثر التنموي السريع الممولة خارجياً وخاصة من الصناديق المالية الاقليمية والحصول على تمويل جديد.

ثالثاً: الأهداف والمنطلقات الرئيسية للسياسة المالية والاقتصادية في مشروع الموازنة العامة للدولة للعام المالي 2022

#### أولاً: إعادة بناء وتطوير الجهاز الإداري للدولة:

تهدف الحكومة إلى العمل على تطوير الجهاز الإداري للدولة وإعادة بنائه في ضوء ظروف الحروب وإعادة البناء في عدن من خلال تطبيق عدة برامج رئيسية تتمثل في: تنفيذ العديد من المشروعات التي تهدف إلى تحديث البنية التحتية لأجهزة الدولة، وتطوير منظومة إدارة الموارد البشرية بهدف تنمية مهارات العنصر البشري، تطوير الخدمات الحكومية المؤداه إلى المواطنين، وضع نظام يتسم بالشفافية في إدارة أجهزة الدولة مع وضع قواعد واضحة للوقاية من الفساد.

## ثانياً: تعبئة الموارد العامة للدولة بهدف زيادة معدلات النمو والتشغيل:

إن تحقيق معدل نمو إقتصادي موجب مع خلق فرص عمل حقيقية تؤدي إلى خفض معدل البطالة في ظل الأوضاع التي تمر بها الدولة اليمنية يُعد أولوية رئيسية. ولتحقيق ذلك سوف تقوم الحكومة بالتوسع في تطبيق سياسات من شأنها رفع معدلات الإستثمار، وإجراء إصلاحات إقتصادية وهيكلية توفر بيئة مالية ونقدية ومؤسسية مستقرة بهدف دعم القطاعات الإنتاجية، بالإضافة إلى إستكمال تنفيذ عدد من مشروعات البنية التحتية.

## ثالثاً: الحفاظ على تحقيق العدالة الإجتماعية:

إن توفير إحتياجات المواطنين وخاصة محدودى الدخل سيظل هدفاً إستراتيجياً للموازنة العامة للدولة وذلك في إطار مسئولية الدولة عن تحقيق العدالة الإجتماعية للمواطنين في ظل الصراع وعدم الاستقرار، ويأتي ذلك من خلال إعادة ترتيب أولويات الإنفاق العام لصالح القاعدة العريضة من المواطنين بما يضمن كفاءة الإنفاق وإتباع سياسات توزيعية أكثر كفاءة وعدالة سواء من الناحية الجغرافية أو من حيث الإستهداف.

كما يستهدف مشروع الموازنة العمل على توفير وتحسين العديد من الخدمات الضرورية المقدمة للمواطنين وفي مقدمتها خدمات الصحة والتعليم، والإسكان الإجتماعى لمحدودى الدخل، والنقل والمواصلات العامة، ومياه الشرب والصرف الصحى.

## رابعاً: تحقيق الإستقرار المالى والإقتصادى:

إن تصحيح الإختلالات في التوازنات الرئيسية للإقتصاد يعتبر هدف رئيسى للسياسات الإقتصادية لضمان الإستدامة المالية وتحقيق الإستقرار النقدى والسيطرة على معدلات الإرتفاع فى أسعار السلع والخدمات وتحسين أوضاع ميزان المدفوعات والنقد الأجنبى فضلاً عن تحصين الإقتصاد فى مواجهة الصدمات الداخلية والخارجية الناتجة عن تقلبات الإقتصاد القومى والعالمى.

وتعتبر اجراءات الضبط المالى للسيطرة على معدلات عجز الموازنة العامة ومعدلات الدين العام فى مقدمة أولويات مشروع الموازنة للعام المالى 2022، من خلال الالتزام بإجراءات الضبط المالى التى تتبعها الحكومة بهدف خفض عجز الموازنة.

## رابعاً: الإصلاحات المالية المستهدفة بمشروع الموازنة العامة للدولة للعام المالى 2022

وتعكس موازنة العام المالى 2022 أولويات السياسة والإصلاحات المالية المطلوبة وذلك على النحو التالى:

### أولاً: على مستوى الموارد العامة

اتخاذ إجراءات فعالة لتحصيل الإيرادات العامة السيادية وتوريدها الى حساب الحكومة العام في البنك المركزي في عدن.  
رفع كفاءة وتطوير أداء الإدارة الضريبية، وبما يشمل تحديث وتطوير نظم المعلومات، والربط بين المصالح الإيرادية، ونظم الفحص، والتحصيل الإلكتروني.

إصدار القرارات والتعليمات التي تضمن رفع كفاءة المنظومة الضريبية وضبط المجتمع الضريبي وتوسيع القاعدة الضريبية، والتركيز على سد منافذ التهرب الضريبي وتحسين اداء الحصيلة من بعض الأنشطة.

تطبيق اجراءات إعادة هندسة العمل بالمصالح الضريبية بشكل مدمج وموحد وفقاً للمعايير الدولية والنظام العالمي TADAT إعداد إستراتيجية للإيرادات الضريبة على المدى المتوسط وإعلانها للجمهور لضمان وجود قدر من الشفافية والوضوح ، وستعمل وزارة المالية على وضع لمستهدفات الضريبة وخطة العمل والإجراءات الإصلاحية المطلوبة

إستكمال إصلاحات المنظومة الجمركية التي تسهم في وقف ممارسات المنافسة غير المشروعة نتيجة التهريب، وتبسيط وتيسير الإجراءات لخفض التكلفة والوقت أمام المستوردين، وفي نفس الوقت تشديد العقوبة على المتهربين إلى جاتب إعادة هندسة الاجراءات الجمركية وميكنتها وتطبيق نظام الشباك الواحد الالكتروني.

الإستمرار في تطوير منظومة الضرائب العقارية على المباني، من خلال رفع كفاءة الإدارة الضريبية ، وتطوير نظم المعلومات والحصص والفحص والتعامل مع المواطنين

تفعيل أجهزة النزاهة والمساءلة ومحاربة الفساد المالي وفض المنازعات الضريبية وحماية المستثمرين.

اتخاذ تدابير وإجراءات احترازية تحول دون تسرب الموارد العامة تحت مسميات حسابات خاصة وغيرها.

ثانياً: على مستوى الإنفاق العام

تحقيق معدل نمو للمصروفات في المدى المتوسط يقل عن معدل نمو الإيرادات العامة وهو أمر ضروري لتحقيق الضبط المالي المستهدف ولخفض معدلات الدين العام في المدى المتوسط ولخلق مساحة مالية تسمح بزيادة الإنفاق على التنمية البشرية والإنفاق الإستثماري القادر على المساهمة في تحقيق النمو وخلق فرص عمل حقيقية.

إعادة النظر في أولويات الإنفاق العام وتخصيصاته وخاصة تخصيصات النفقات التشغيلية ونفقات التصرف في الأصول المالية وبما لا يؤدي الى تراجع الأداء العام وتقديم الخدمات الحكومية.

إستمرار تعزيز مجهودات تطوير شبكة حماية إجتماعية متكاملة تضمن وصول الدعم لمستحقيه بالإضافة إلى تطوير آليات إستهداف الفئات الأولى بالرعاية.

انتظام دفع الأجور والمرتببات لموظفي الدولة والإستمرار في تطبيق اتفاق "استكهولم" في تحصيل الموارد ودفع المرتببات.

تطبيق شروط الوظيفة العامة في التوظيف ومراجعة الأسماء الوهمية والمزدوجة في قوائم الخدمة المدنية.

بناء شراكة مع القطاع الخاص في تنفيذ مشاريع البنية التحتية واعداد الأطر التنظيمية والتشريعية والقانونية المنظمة للإستثمار بنظام الشراكة بين القطاعين العام والخاص.

رفع كفاءة إدارة نظم المالية العامة من خلال البدء في ميكنة كافة المعاملات الحكومية على جانبي الإنفاق والإيراد، والتحول التدريجي لوضع الموازنة بشكل إستراتيجي بحيث تعكس المصروفات الأولويات مع ضمان تحقيق الإستدامة المالية.

وضع منظومة لمتابعة وتقييم وإدارة المخاطر المالية بالشكل الذي يضمن متابعة آثارها المالية على الخزانة العامة ورصد أية مخاطر محتملة والتعامل معها بشكل مبكر.



التفاوض مع صندوق النقد الدولي للحصول على دعم مباشر للموازنة وكذلك دعم الإصلاحات المالية.

تطبيق مبدأ الشفافية المالية والمشاركة المجتمعية خلال مراحل إعداد وتنفيذ الموازنة العامة للدولة، مع نشر التقارير والبيانات المرتبطة بالأداء المالي بشكل دوري، ومنها البيان المالي التمهيدي، ومراجعة الأداء الربع سنوي، وموازنة المواطن.

### ثالثاً: على مستوى عجز الموازنة

- تخفيض عجز الموازنة الى مستويات امنة لا تتجاوز 5% من الناتج المحلي الإجمالي.
- تطبيق استراتيجية لخفض مستويات الدين العام الحكومي إتساقاً مع معدلات العجز المستهدف تحقيقه خلال نفس العام ومعدلات النمو الإقتصادي.
- تمويل عجز الموازنة من مصادر حقيقية والاقتراض من البنك المركزي في حدود ضيقة بحيث لا يؤدي الى زيادة التضخم وبما لا يخالف أيضاً قانون البنك المركزي.
- التفاوض مع شركاء اليمن التنمويين لإعفاء اليمن من الديون السابقة او إعادة جدولتها أو الاعفاء من الفوائد المترتبة عليها أو تأجيل سداد الأقساط الى حين يتحسن وضع المالية العامة.
- التنسيق والتكامل بين السياسات المالية والنقدية والسيطرة على عجز الموازنة العامة ومعدل التضخم عند الحدود المقبولة اقتصادياً.
- تعزيز معايير الحوكمة ومعايير الكفاءة والفعالية المالية في المؤسسات الحكومية.

### خامساً: التعليمات العامة لإعداد الموازنة العامة للدولة

1- علي جميع الجهات والوحدات الادارية (المركزية أو المحلية) عند اعداد مشاريع موازنتها للعام 2022 الإلتزام بالاتي:

- القانون المالي رقم (8) لسنة 1990م ولائحته التنفيذية وتعديلاتهما
- قانون السلطة المحلية رقم (4) لسنة 2000م وتعديلاته ولائحته التنفيذية
- اللائحة المالية للسلطة المحلية
- برنامج الحكومة اليمنية الشرعية
- قرارات مجلس الوزراء المتعلقة بترشيد الإنفاق الحكومي وتعظيم الإيرادات العامة وإجراءات تجاوز الأزمة المالية
- الأسس والتعليمات الإرشادية التي تصدرها وزارة الخدمة المدنية والتأمينات لإعداد مشروع موازنة الباب الأول (أجور وتعويضات العاملين)، والتقييد بالقانون العام للخدمة المدنية رقم (19) لسنة 1991م ولائحته التنفيذية. والقانون رقم (43) لسنة 2005 بشأن نظام الوظائف والأجور والمرتبات ولائحته التنفيذية، وقرارات مجلس الوزراء الصادرة بهذا الشأن.
- تضمين مشروع الموازنة جميع الموارد والاستخدامات، بما في ذلك أي موارد تحصلها الجهات (مركزية كانت أو محلية) وتجنبيها في حسابات خاصة وأوجه استخداماتها مع بيان تفصيل الحسابات الخاصة للموارد على مستوى كل وعاء من الأوعية الإيرادية (مفصل على مستوى الرسوم)، وكذا تضمين مشروع الموازنة المصوغ القانوني الذي بموجبه تم إنشاء الحساب الخاص مع بيان الموارد المحلية التي تحصل في دواوين الوزارات.

2- على كافة جهات ووحدات الموازنة العامة للدولة (المركزية والمحلية) إعداد مشاريع موازنتها وفق التوبيخ الاقتصادي للموازنة العامة للدولة الصادر بقرار وزير المالية رقم (64) لسنة 2006م وتعديلاته بالقرار الوزاري رقم (355) لسنة 2009م والقرار الوزاري

رقم (6) لسنة 2012م والتبويب الوظيفي للنفقات العامة بالموازنة العامة للدولة الصادر بقرار وزير المالية رقم (145) لسنة 2008م، وكذلك على الوحدات المستقلة والملحقة والصناديق الخاصة التي تتبع النظام المحاسبي الحكومي إعداد مشاريع موازنتها وفق التبويب الاقتصادي للموازنة تي التبويب الوظيفي المشار إليهما في هذه الفقرة.

3- على جميع الجهات والوحدات الإدارية (المركزية والمحلية) أن ترفق بمشاريع موازنتها للسنة المالية 2022 مذكرة تفسيرية تتضمن الأهداف والمعايير وقائمة الأولويات التي تم بموجبها تخصيص استخداماتها وإعداد مشاريع موازنتها في ضوءها ومدى ارتباطها بالسياسات والأهداف الأساسية لمشروع الموازنة العامة للدولة للسنة المالية 2022.

4- التزام جميع الجهات (الوزارات، الفروع، الهيئات الحكومية، الأجهزة المركزية، أمانة العاصمة، المحافظات والمديريات) والوحدات المستقلة والملحقة والصناديق الخاصة بما يلي:

- تنمية وتنوع قاعدة الموارد وفي مقدمتها الموارد الذاتية وتعزيز كفاءة تحصيلها.
- الاعتماد على البيانات المالية والإحصائية عند إعداد تقديرات المصادر الإيرادية (محلية - مشتركة) على مستوى الوحدات الإدارية وإرفاقها ضمن مشروع الموازنة.
- ترشيد نفقات التشغيل من خلال تخفيض النفقات المظهيرية والترفيهية والتخلص من نفقات التشغيل غير الضرورية وإعادة هيكلة استخداماتها لصالح النفقات التشغيلية الأساسية الضرورية والنفقات التنموية، وفي حالة إدراج استخدامات غير ضرورية وغير متعلقة بنشاط وطبيعة عمل الجهة سيتم تنزيلها من السقف المحدد ولن يستفاد منها.
- بيان المهام والخدمات المؤداة مقابل التكاليف المرصودة كخطوة أولى يتبعها خطوات وإجراءات تُمهّد للانتقال التدريجي لموازنة البرامج والاداء مستقبلا
- عدم تجاوز السقف التأشيرية بأي حال من الاحوال
- تقديم مشاريع الموازانات وفق المواعيد المحددة في هذا الكتاب الدوري

سادساً: التعليمات الخاصة بإعداد مشاريع موازانات الجهات والوحدات الإدارية

#### **1- التزام عموم وحدات السلطة المركزية بما يأتي:**

- أ- إعداد مشاريع موازنتها بحيث تتضمن موازنة التشغيل والمعاملات في الأصول غير المالية والمعاملات في الأصول المالية، كما هو مبين في دليل إعداد الموازنة العامة.
- ب- الالتزام بعدم إدراج أية مشاريع جديدة ذات طابع محلي في مشاريع موازنتها للسنة المالية 2022 تنفيذاً لقانون السلطة المحلية ولائحته التنفيذية، وقرارات مجلس الوزراء بهذا الشأن وفي حالة إدراج أي مشاريع جديدة ذات طابع محلي سيتم تنزيلها من السقف المحدد ولن يستفاد منها.

#### **2- التزام عموم وحدات السلطة المحلية (المحافظات والمديريات المحررة) بما يأتي:**

- أ- إعداد مشاريع موازنتها بحيث تتضمن موازنة التشغيل والمعاملات في الأصول غير المالية وعدم إدراج أية موارد أو استخدامات تتعلق بالمعاملات في الأصول والالتزامات المالية كما هو مبين في دليل إعداد الموازنة العامة المعد في ضوء قانون السلطة المحلية ولائحته التنفيذية واللائحة المالية للسلطة المحلية.
- ب- تقدير أنواع الموارد المحلية والمحلية المشتركة بحسب ما ورد من أسس لتقدير هذه الأنواع في هذا الكتاب الدوري.

ج- عدم التقدير والتحصيل لأي نوع من أنواع مصادر الإيرادات للسلطة المحلية ضمن مراكز المحافظات. وضرورة إدراجها في موازنات الوحدات الإدارية (المديريات) الواقع في نطاقها التقدير والاهتمام بتحديث وسائل التحصيل لتلك المصادر الإيرادية.

د- على المجالس المحلية للمحافظات القيام بما يأتي:

- التأكد من التزام المديريات الواقعة في نطاقها بحصتها من الدعم المركزي الجاري، وكذلك نصيبها من الدعم المركزي الرأسمالي والموارد العامه المشتركة المخصصة لها وفقا للقرارات الصادرة من مجلس الوزراء بهذا الخصوص

هـ- الالتزام بإدراج تقديرات الأنواع الخاصة بالوارد والاستخدامات بحسب التماذج الخاصة بإعداد مشاريع موازنات وحدات السلطة المحلية والمحددة بدليل لتبويب الاقتصادي لإعداد الموازنة وتعديلاته، مع ضرورة إدراج الموارد بحسب الأنواع الخاصة.

و- الالتزام بعدم إدراج أية نفقات ذات طابع مركزي في مشاريع موازنتها للسنة المالية 2022.

ز- فصل النفقات التشغيلية في الباب الثاني (نفقات على السلع والخدمات والممتلكات) للإدارة العامة للواجبات الزكوية عن نفقات دواوين المحافظات والمديريات وذلك ضمن الجداول التحليلية للموازنة.

3- إخضاع الوظائف والأجور والمرتبات في كافة وحدات الخدمة العامة لأحكام قانون الخدمة المدنية رقم (19) لسنة 1991 وقانون نظام الوظائف والأجور والمرتبات رقم (43) لسنة 2005.

4- التحري في تطبيق قانون الضمان الاجتماعي، وتحقيق أقصى درجات العدل والمساواة بما يكفل وصوله إلى مستحقيه وفي حدود الضوابط والمعايير المحددة في القانون.

5- على كافة وحدات السلطين المركزية والمحلية إعادة ترتيب أولويات إنفاقها خاصة نفقات السلع والخدمات والصيانة (الباب الثاني) وتوجيهها نحو الأنواع المرتبطة بالأنشطة الأساسية لها وخفض النفقات غير الضرورية والمظهرية في إطار السقوف التأشيرية المبلغة بها وعدم تجاوزها بأي حال من الأحوال.

6- على كافة الوحدات المستقلة والملحقة والصناديق الخاصة التركيز عند تقدير نفقاتها على النفقات التي تحقق الأهداف والأغراض التي أنشئت من أجلها هذه الوحدات والصناديق ، وخفض النفقات الغير ضرورية والمظهرية ، وعدم إدراج أية نفقات غير مرتبطة بالأهداف والأغراض التي أنشئت من أجلها .

7- التحري التام في المناقصات والمشتريات الحكومية والالتزام الكامل بنصوص القانون رقم 23 لسنة 2007 بشأن المناقصات والمخازن الحكومية ولائحة التنفيذية وتعديلاتها وأية قرارات وتعميمات صادرة بهذا الشأن .

8- إعادة النظر في ترتيب أولويات المشاريع بحيث تعطى الأولوية للمشاريع قيد التنفيذ والمشاريع المتعثرة والمعتمدة في الموازنة والمشاريع ذات التمويل الخارجي أو المشترك إذا ما توفرت الوثائق التي تؤكد بأن مصادر تمويلها الخارجي أكيدة ومضمونة، ولا تدرج أي مشاريع معتمدة لم يبدأ تنفيذها ما لم يتوفر التمويل الكافي لتنفيذها.

9- على وحدات السلطة المركزية (الدواوين العامة) إدراج تقديرات أنواع النفقات ذات الطابع العام (البعثات الدراسية، نفقات التدريب الخارجي، المؤتمرات، النفقات ذات الطابع الخاص، حضور المؤتمرات والانتقالات الخارجية، نفقات التدريب المحلي، والكتب المدرسية والأدوية) في مشاريع موازنتها كل حسب اختصاصاته، وإرفاق توزيع هذه التقديرات على مستوى المحافظات لتتولى المجالس المحلية في المحافظات توزيعها ضمن التأشيريات على مستوى المديريات.

10- على ديوان عام وزارة المالية تقدير الاستخدامات ذات الطابع المركزي كالقوائد وأقساط القروض وإعانة العلاج في الخارج على مستوى الجمهورية.

11- اشتمال مشاريع الموازنات على الاستخدامات والموارد الفعلية بما فيها الحسابات الخاصة على مستوى الباب والفصل والبند والنوع للستة أشهر الأولى من العام الحالي والمقابل والفعلي لثلاث سنوات ماضية

12- وبالنسبة للبعثات الدبلوماسية والقنصليات والملحقيات في الخارج:

ضرورة قيام وزارة الخارجية بإعادة رسم الخارطة الدبلوماسية بما يحقق الأهداف لسياسية والاقتصادية للبلاد، مع مراعاة الالتزام بعدم إدراج أية اعتمادات جديدة ذات طابع توسعي أو زيادة الكادر الحالي بأي شكل من الأشكال، مع مراعاة الآثار المالية المترتبة على قرار مجلس الوزراء رقم (467) لسنة 2008م بشأن ضبط الإنفاق والمواعمة بين تدفق الإيرادات وحدود النفقات، وقرار مجلس الوزراء رقم (87) لعام 2010م بشأن تنقيح قرارات مجلس الدفاع الوطني الخاصة بمعالجة الوضع الاقتصادي والمالي، وقرارات مجلس الوزراء المُتخذة بشأن ترشيد الإنفاق الحكومي.

### سابعاً: تعليمات وأسس تقدير الموارد العامة

1- تقوم كل جهة ووحدة إدارية (مركزية أو محلية) بإعادة تقدير مواردها لعام 2022 في ضوء المحصل الفعلي للستة أشهر الأول من هذا العام مضافاً إليه المتوقع تحصيله منها خلال النصف الثاني، مع العمل على تنميتها وفقاً للقوانين والأنظمة واللوائح النافذة في هذا الشأن.

2- تعد تقديرات أنواع الباب الأول: الإيرادات الضريبية في ضوء الأسس والمعايير التالية:

#### أ- مصلحة الضرائب:

يحدد معدل الزيادة في الإيرادات الضريبية التي تقوم بتحصيلها مصلحة الضرائب أو يتم تحصيلها لصالحها في ضوء اتجاهات المتغيرات الآتية:

- معدل نمو الناتج المحلي الإجمالي الإسمي المتوقع للعام 2022
- متوسط نمو الإيرادات الضريبية للمصلحة للفترة (2017-2021).
- معدل نمو الواردات المتوقع للعام 2022
- الآثار الاستثنائية لتنفيذ القوانين والسياسات المتخذة والتي ستتخذ بغرض تحسين مستوى وآلية التحصيل الضريبي وتوسيع القاعدة الضريبية وزيادة معدل الامتثال الضريبي ومكافحة التهرب الضريبي ووقف الإعفاءات الضريبية غير القانونية

#### ب- مصلحة الجمارك:

يتم تحديد معدلات نمو الإيرادات الجمركية التي تقوم بتحصيلها مصلحة الجمارك أو يتم تحصيلها من قبل جهات أخرى لصالحها في ضوء اتجاهات المتغيرات الآتية:

- متوسط معدل نمو الإيرادات الجمركية للمصلحة للفترة (2017-2021)
- معدل نمو الواردات غير المعفية المتوقع للعام 2022
- الآثار الاستثنائية لتنفيذ القوانين والسياسات المتخذة والتي ستتخذ بغرض تحسين مستوى التحصيل الجمركي ومكافحة التهريب الجمركي ووقف الإعفاءات الجمركية غير القانونية وتصحيح القيمة.

#### ج- بقية الإيرادات الضريبية:

ألا نقل تقديرات بقية الإيرادات الضريبية للعام 2022 عن ربط عام 2021 مضافاً إليه معدلات النمو السنوية التالية:

- معدل النمو السنوي لإيرادات الزكاة بحسب ما هو محدد في بلاغات السقوف التأشيرية لوحدات السلطة المحلية
  - معدل النمو السنوي لبقية الإيرادات الضريبية (المركزية والمحلية) المحصلة من قبل جهات ووحدات أخرى (10%)
- 3- **تقدير أنواع الباب الثاني:** المنح بكافة أنواعها (نقدية، عينية، فنية) جارية كانت أو رأسمالية للعام المالي 2022 مركزياً في ضوء الاتفاقيات الموقعة بالإضافة إلى المنح المؤكد الحصول عليها (كل على حدة).

### الباب الثاني: المنح

يتعين الإلتزام بإدراج كافة المنح الواردة للجهة الإدارية بمشروع الموازنة مع بيان أوجه الصرف موزعاً على أبواب الموازنة المختلفة، وكذلك بيان بالدول المانحة والمشروعات التي يتم تنفيذها على تلك المنح، وعلى أن يتم الفصل لدى تقديرات هذا الباب ما بين المنح المحلية والمنح الأجنبية التي ترد أو تخصص للجهات مع ضرورة الإلتزام بقواعد وضوابط الرقابة الخاصة بقبول المنح والهبات والتبرعات المقدمة من جهات أجنبية أو وطنية كما يتعين الفصل ما بين المنح المرتبطة بتمويل نفقات جارية أو إستثمارية.

ويتعين على كل جهة موافاة وزارة المالية ببيانات تفصيلية عن كل منحة مشروع موازنتها متضمنة ما يلي :

- 1- الجهة المانحة (حكومة / منظمة / ....).
  - 2- طبيعة المنحة (محلية / أجنبية).
  - 3- نوع المنحة (نقدية / عينية).
  - 4- تاريخ الحصول على المنحة .
  - 5- توزيع المنحة على البنود المختصة وفقاً للتقسيم الاقتصادي (موارد واستخدامات).
- 4- **تقدير أنواع الباب الثالث:** إيرادات دخل الملكية ومبيعات السلع والخدمات والتحويلات والمتنوعة على النحو الآتي:
- تقدر حصة الحكومة من فائض الأرباح في ضوء ما يتوقع تحصيله خلال العام المالي 2022 كحصة للحكومة من فوائض أرباح المؤسسات والشركات والهيئات للقطاعين العام والمختلط، مع ادراج المتأخرات التي لم يتم تحصيلها من فائض النشاط الجاري عن سنوات سابقة والمتوقع تحصيلها في السنة المالية 2022 من واقع ما أسفرت عنه موازنتها العمومية وحساباتها الختامية، بما في ذلك حصة الحكومة من فائض أرباح المؤسسات والشركات المساهمة فيها العاملة بالخارج.
  - تقدر بقية الإيرادات المركزية والمحلية في الباب الثالث (بخلاف النفطية وموارد الصناديق لصالح السلطة المحلية)، في ضوء مقدار التحسن في الخدمات الحكومية. ومعدل النمو الاقتصادي، على ألا تقل تقديرات تلك الإيرادات (المركزية والمحلية) للعام 2022 عن ربط 2021 مضاعفاً إليه معدل نمو سنوي (5%).
  - 5- التزام كافة الجهات والوحدات (المركزية والمحلية) بإظهار التحويلات التي تحصل عليها من الوحدات غير الحكومية المحلية والخارجية بخلاف المنظمات الدولية جارية كانت أو رأسمالية بما فيها مساهمة المجتمع المحلي في تمويل مشاريع المبادرات الذاتية والتعاونية للسلطة المحلية ضمن مواردها وبحسب تبويبها في دليل التبويب الاقتصادي لإعداد الموازنة في جانب الموارد.
- 6- **تعد تقديرات أنواع موارد الباب الرابع:** التصرف في الأصول غير المالية في ضوء ما يتوقع الحصول عليه من مبيعات الأراضي والمباني والأصول غير المالية الأخرى للعام 2022 (كل على حدة) في ضوء القوانين والقرارات النافذة بهذا الشأن وبما يخدم الصالح العام.
- وعلى كافة الجهات والوحدات (المركزية والمحلية) إرفاق كشف تفصيلي عن الأصول غير المالية المتوقع التصرف بها بالبيع خلال العام 2022 (كل على حدة).

- 7- **تعد تقديرات الباب الخامس:** التصرف في الأصول المالية وتحمل الخصوم مركزياً على النحو الآتي:

- تقدر متحصلات الإقراض (متحصلات أصول القروض) المحلي والخارجي، في ضوء ما يتوقع تحصيله من أقساط القروض التي أقرتها الدولة للغير، والتحصيلات المتوقعة لأقساط القروض التي سبق للدولة أن قامت بسدادها عن الغير. يجب إرفاق كشف تفصيلي بمقدار المتحصلات المتوقعة من ذلك خلال العام المالي 2022 (كل على حدة) مقومة بالعملة الأجنبية وما يعادلها بالعملة المحلية في ضوء سعر الصرف المتوقع.
- قيمة مبيعات الأسهم وحقوق الملكية الأخرى التي تملكها الدولة في المؤسسات المحلية والخارجية. يجب إرفاق كشف تفصيلي بمقدار المتحصلات المتوقعة من ذلك خلال العام المالي 2022.
- تقدر المتحصلات من إصدار الأوراق المالية (المحلية والخارجية) بخلاف الأسهم في ضوء حجم العجز المخطط والمتوقع تمويله من خلال الاقتراض غير المباشر (مثل: إصدار أذون الخزانة والسندات الحكومية والصكوك الإسلامية لأغراض التمويل). يجب إرفاق كشف تفصيلي بمقدار المتحصلات المتوقعة من إصدار هذه الأوراق خلال العام 2022.
- تقدر المتحصلات من الاقتراض المحلي والخارجي، في ضوء اتفاقيات القروض الموقعة بالإضافة إلى تلك المؤكد الحصول عليها خلال العام المالي 2022 (كل على حدة). يجب إرفاق كشف تفصيلي بمقدار المتحصلات المتوقعة من ذلك خلال العام المالي 2022 (كل على حدة) مقومة بالعملة الأجنبية وما يعادلها بالعملة المحلية في ضوء سعر الصرف المتوقع.

#### ثامناً: تعليمات وأسس تقدير الاستخدامات العامة

#### الباب الأول: اجور وتعويضات العاملين:

- يتم الالتزام عند تحديد تقديرات هذا الباب بالأسس والتعليمات التي تصدرها وزارة الخدمة المدنية والتأمينات لإعداد مشروع موازنة الباب الأول (اجور وتعويضات العاملين)، والتقييد بالقانون العام للخدمة المدنية رقم (19) لسنة 1991م ولائحته التنفيذية، والقانون رقم (43) لسنة 2005م بشأن نظام الوظائف والأجور والمرتبات ولائحته التنفيذية، وقرارات مجلس الوزراء الصادرة.

#### الباب الثاني : نفقات على السلع والخدمات والممتلكات:

#### الفصل الأول: السلع والخدمات:

- ترتبط اعتمادات هذا الفصل وفقاً لمتطلبات التشغيل وأداء الخدمة، وقصر كل إنفاق علي ما يحقق استفادة ممكنة وبأكبر عائد، ويتطلب ذلك وضع الاسلوب الامثل في تقدير كل اعتماد والعائد المستهدف منة بأقل تكلفة وأفضل الأسعار بعد الاخذ في الاعتبار استبعاد ما يمكن توفيره من المخزون والراكد من المستلزمات السلعية. مع ضرورة الالتزام بالاتي:

#### بند (1) خدمات المرافق:

نوع (1): مياه

نوع (2): إنارة

- يتعين على الوزارات والمصالح والهيئات الحكومية والأجهزة المركزية ومكاتبها بأمانة العاصمة والوحدات الإدارية اتخاذ الإجراءات الحاسمة للحد من استهلاك الكهرباء والمياه والاستخدام الأمثل لها بما يعكس جدية الترشيد فيها، وتقدير تكلفة الاستهلاك بشكل دقيق وبحيث لا يترتب عليه أية متأخرات تدور لسنوات قادمة.

## **بند (2) : مستلزمات المكاتب :**

نوع (1) : أدوات كتابية ومكتبية وكتب ومطبوعات.

- يتم تقدير اعتمادات هذا النوع وفقا للاحتياجات الضرورية مع مراعاة الاقتصاد اللازم في استخدامها دون إسراف بعد الأخذ في الاعتبار المخزون منها لدى الجهات والوحدات الإدارية وتوضيح الأسس والعوامل التي تم الاستناد عليها في التقدير، وعلى كافة المجالس المحلية إلزام الوحدات الإدارية بالسلطة المحلية التي يتوفر لديها أي مخزون فائض بإبلاغ الديوان العام ذي العلاقة بغرض استخدام هذا الفائض من قبل وحدات أخرى سواء كانت مركزية أو محلية.
- يرفق بمشروع الموازنة العامة كشف بالأدوات الكتابية والمكتبية والكتب والمطبوعات.

## **بند (3) : الاتصالات:**

نوع (1): نشر وإعلان مجلات وجراند.

- يراعي عند وضع تقديرات هذه النوع اقتصار النشر والاعلان علي الأعمال الرسمية فقط وفي أضيق الحدود، وخفض الاشتراكات القائمة في الصحف والمجلات سواء كانت حكومية او حزبية اوخاصة .

نوع (2): البريد و الاتصالات

- يجب علي جميع الجهات العمل علي ترشيد وخفض نفقات هذا النوع من خلال أقتصار الاتصالات الداخلية والخارجية علي الاعمال الرسمية فقط وفي أضيق الحدود

## **بند (4): الضيافة:**

نوع (1): مؤتمرات واحتفالات وضيافة.

نوع (2): نفقات ذات طابع خاص

- يجب على جميع الجهات العمل على ترشيد وخفض نفقات هذين النوعين إلي أضيق الحدود

نوع (3): نفقات النظافة

- يجب تحري الدقة والموضوعية عند تقدير نفقات هذا النوع، والعمل على ترشيدها بحيث تقتصر على ما هو ضروري فقط وفي أضيق الحدود.

نوع (4): نفقات اخرى

- يجب على جميع الجهات العمل على ترشيد وخفض نفقات هذا النوع إلى أضيق الحدود

## **بند (5) : نقل وانتقالات عامة :**

نوع (1): نقل مهمات.

نوع (2): انتقالات داخلية

- يجب على جميع الجهات العمل على ترشيد وخفض نفقات هذين النوعين بحيث تقتصر على ما هو ضروري فقط وف أضيف الحدود.

**نوع (3): حضور مؤتمرات وانتقالات خارجية.**

- يجب على جميع الجهات العمل على ترشيد نفقات هذا النوع وتخفيضها من خلال اقتصار السفر إلى الخارج سواء للأفراد أو الوفود على المهام الرسمية الأساسية فقط ولحالات الضرورة القصوى التي تَحَقِّق الصلحة الوطنية، وفي حدود الأعداد والأيام المحددة طبقاً للقرارات واللوائح المنظمة لهذا الشأن، والتي لا يجب أن تزيد عن أربع سفرات مدة كل منها في الحد الأعلى خمسة أيام فقط بما ذلك المسئول الأول في الجهة.

**بند (6): إيجارات الأصول المنتجة:**

نوع (1): إيجار المباني.

نوع (2): إيجار الآلات والمعدات والأجهزة.

نوع (3): إيجارات أخرى.

- تقدر اعتمادات هذه الأنواع وفقاً للعقود الحالية المعتمدة بالموازنة دون زيادة مع العمل على إمكانية استغلال المباني الحكومية أو مباني الأوقاف والحد بقدر الإمكان من بند الإيجارات بكافة أنواعه، وتنزيل أية وفورات ناتجة عن اعتمادات كانت قد رصدت كمديونيات أو لمرة واحدة أو لأغراض غير متكررة في عام 2022، وكذا تنزيل أية مبالغ كانت تصرف لإيجارات سكن مسؤولى الجهة بالمخالفة للقانون.

يرفق بمشروع الموازنة كشف بيان بالأصول المنتجة المستأجرة، مع مراعاة إدراج قيمة العقود الحالية الخاصة باستئجار الأراضى ضمن الباب (2) الفصل (5) البند (1) النوع (1) إيجارات الأراضى

**بند (7): نفقات البحوث والتطوير والتدريب:**

نوع (1): نفقات البحوث والتطوير.

- تقدر اعتمادات هذا النوع وما للاحتياجات الضرورية وبأقل كلفة (مع توضيح الأسس والعوامل التى تم الاستناد إليها في التقدير)

نوع (2): نفقات التدريب المحلى:

- يجب أن يقتصر التدريب المحلى لأي جهة على المجالات والبرامج المتعلقة بعملها والتي تسهم في تحسين مستوى كفاءة الأداء وبالتالي جودة الخدمة التي تقدمها، مع تحديد الفئات المستهدفة على مستوى النوع الاجتماعي (الذكور والإناث)، مع مراعاة خفض أي مخصصات تضمنتها موازنة عام 2021 تخص برامج غير مرتبطة بالنشاط الرئيسي للجهة.

نوع (3): نفقات التدريب الخارجى

- يجب أن يقتصر التدريب الخارجى على ما تتضمنه البروتوكولات والاتفاقيات الثنائية مع الدول الشقيقة والصديقة السارية الفعول كمنح تدريبية مستضافة في المجالات التخصصية المرتبطة بالنشاط الرئيسي للجهة ولحالات الضرورة القصوى فقط، وبما يضمن زيادة الكفاءة في المجالات التي يتم التدريب فيها مع مراعاة تحديد الفئات المستهدفة على مستوى النوع الاجتماعي (الذكور والإناث).

يرفق بمشروع الموازنة كشف بنفقات التدريب الخارجى

**بند (8): نفقات سلعية وخدمية أخرى:**



نوع (1): أدوية ومستلزمات طبية و مواد أولية ومساندة.

نوع (2): أغذية وملبوسات.

- تقدر اعتمادات هذين النوعين وفقاً للاحتياجات الضرورية والمخزون المتوفر منها لدى الجهات واستخدامها للأغراض المخصصة لها بأقل تكلفة، مع توضيح الأسس والعوامل التي تم الاستناد عليها في التقدير، وعلى جميع الجهات العمل على ترشيد وخفض النفقات المتعلقة بالأغذية والملبوسات واقتصارها على ما هو ضروري للغاية وفي أضيق الحدود.

نوع (3): نفقات أخرى.

- يجب على جميع الجهات العمل على ترشيد وخفض نفقات هذا النوع إلى أضيق الحدود، بحيث تقتصر على ما هو ضروري منها، مع بيان الأسس التي تم الاستناد إليها عند الاحتساب والتقدير.

### الفصل الثاني: الصيانة:

- ترتبط اعتمادات هذا الفصل وفقاً لمتطلبات الصيانة الدورية للبنية الأساسية والمركبات والمعدات والأثاث، بما يكفل المحافظة عليها واستمرارية تشغيلها وبحيث تعتبر تقديرات عام 2021 لهذا الفصل بعد تنزيل أية اعتمادات كانت قد رصدت في عام 2021 كمديونيات أو لمرة واحدة أو لأغراض غير متكررة في عام 2022، مع ضرورة الالتزام بالآتي :

بند (1): صيانة البنية الأساسية:

- إذا كانت صيانة البنية الأساسية من طرق أو جسور أو مرافق عامة وتحسينات صغيرة تأخذ شكل الصيانة الدورية العادية، فيجب إدراجها ضمن أنواع هذا البند، أما إذا كانت المبالغ خلافاً لذلك فيجب اعتبارها جزءاً من اكتساب الأصول لثابتة، ويجب الالتزام بوضع برنامج لصيانة كل الأصول بما يكفل الحفاضة عليها واستمرارية التشغيل وأداء الخدمات دون أعطال وصولاً إلى ترشيد الإنفاق.

بند (2): صيانة المركبات والمعدات والأثاث:

- تقتصر اعتمادات أنواع هذا البند على الحتميات الفعلية المرتبطة بتشغيل سيارات الخدمات العامة ووسائل النقل الحكومية وفق قرارات مجلس الوزراء بهذا الشأن، والالتزام بالجهات بالاستخدام الأمثل لها وصيانتها بما يضمن استمرارها في تادية الخدمة على مدار العام وبما يؤدي إلى الحفاظ عليها مع العمل على ترشيد وخفض تقديرات النفقات المتعلقة بالوقود والزيوت. يرفق بمشروع الموازنة كشف بنفقات صيانة المركبات والمعدات والأثاث.

### الفصل الثالث: مدفوعات الفوائد/البند(2)/نوع (2)، نوع (5)/البند (3)/نوع(3):

- يجب إدراج الاعتمادات اللازمة لسداد الفوائد والأرباح على الاقتراض المحلي والخارجي المستحقة السداد فعلاً في عام 2022 (كل على حدة)، مع مراعاة أية متأخرات سداد لهذه الفوائد والأرباح عن سنوات سابقة لم تستوعب في موازنة عام 2021 في موازنة 2022. يرفق بمشروع الموازنة كشف بيان بكافة الأصول المالية المسددة فوائدها.

### الفصل الخامس: نفقات على الممتلكات بخلاف الفوائد/البند (1) نوع (1): إيجارات الأراضي:

- تقدر اعتمادات هذا النوع وفقا للعقود الحالية دون أي زيادة مع العمل على استغلال أي أراضي حكومية أو أراضي الأوقاف، والحد قدر الإمكان من الإيجار، بحيث تعتبر تقديرات عام 2021 منزلاً منها أية اعتمادات رصدت لمرة واحدة أو لأغراض غير متكررة في عام 2022 .

### الباب الثالث: الإعانات والمنح والمنافع الاجتماعية:

#### الفصل الأول: الإعانات المالية:

بند (1): الإعانات المالية للمؤسسات العامة غير المالية.

بند (2): الإعانات المالية للمؤسسات العامة المالية.

بند (3): الإعانات المالية لمؤسسات أو مشاريع أخرى

- يجب علي ترشيد وخفض هذه البنود إلي أضيق الحدود وفي مقدمتها إعانة العجز الجارى للوحدات الاقتصادية المدعومة والدعم الجارى للصناديق الخاصة مع أهمية وضع الخطط الاداريه والفنية للارتقاء بعمل تلك الوحدات وصولاً بها الي الانتقال من العجز الي فائض النشاط

#### الفصل الثاني: المنح/ البند (2)/ النوع (1): منح جارية لمنظمات دولية:

- يتم إدراج الاشتراكات في الهيئات والمنظمات العربية والإقليمية والدولية المستحقة السداد في عام 2022. مع ضرورة ذكر الهيئات والمنظمات.

#### الفصل الثالث: المنافع الاجتماعية:

بند (2): المساعدات الاجتماعية لغير الموظفين.

بند (3): المنافع الاجتماعية للموظفين.

- على جميع الجهات ترشيد وخفض نفقات هذين البندين وفي مقدمتها إعانات العلاج في الخارج والإعانات والمساعدات للموظفين وغير الموظفين بحيث تقتصر على الحالات الضرورية وفي أضيق الحدود مع ضرورة بيان الغرض للضروري منها وأسس إعدادها وتقديرانها وبحيث تعتبر تقديرات نفقات أنواع هذين البندين لعام 2021 بعد تنزيل أية اعتمادات كانت قد رصدت في عام 2021 كمديونيات أو لمرة واحدة أو لأغراض غير متكررة في عام 2022.

#### الفصل الرابع: تحويلات وإعانات مالية أخرى:

بند(1): التحويلات للمؤسسات المقيمة غير الهادفة للربح التي تخدم الأسر المعيشية

بند(2): التحويلات للمؤسسات غير القيمة غير الهادفة للربح التي تخدم الأسر

بند(3): التحويلات الرأسمالية للمؤسسات السوقية القيمة

- يجب العمل على ترشيد وخفض نفقات الأنواع في هذه البنود واقتصارها على ما هو ضروري للغاية، وبحيث تعتبر تقديرات عام 2021 بعد تنزيل أية اعتمادات كانت قد رصدت في عام 2021 كمديونيات أو لمرة واحدة أو لأغراض غير متكررة عام 2022، مع ضرورة بيان الغرض للضروري منها وأسس إعدادها وتقيراتها

بند (6): تحويلات وإعانات مالية أخرى

نوع (1) : البعثات الدراسية:

- يجب الالتزام بالقانون رقم (19) لسنة 2004 بشأن البعثات والمنح الدراسية وقرار مجلس الوزراء رقم (216) لسنة 1998 بشأن تنظيم المساعدات المالية لطلاب الدراسات العليا والجامعية، وقرار مجلس الوزراء رقم (467) لسنة 2008 بشأن ضبط الإنفاق والمواءمة بين تدفق الإيرادات وحدود النفقات وقرار مجلس الوزراء رقم (87) لعام 2010 بشأن تنفيذ قرارات مجلس الدفاع الوطني الخاصة بمعالجة الوضع الاقتصادي والمالي وقرارات مجلس الوزراء ذات الصلة بشأن الإجراءات اللازمة لتجاوز الشكالات المالية، والتي أكدت على وقف الابتعاث الجديد للدراسات في جميع أجهزة الدولة، وحصر حالات الابتعاث الجديدة على منح التبادل الثقافي ولتخصصات نادرة غير متاح دراستها بالداخل، مع تنزيل مخصصات الطلاب الذين مر عليهم الفترة القانونية للابتعاث ودون النظر في الأسباب في جميع وحدات الخدمة العامة المدنية والعسكرية، والطلاب الذين أنهوا دراساتهم في العام الدراسي 2021/2020 والأعوام السابقة وكذلك المتوقع إنهاؤهم لدراساتهم في العام الدراسي 2022/2021 في عام 2022 والمتوقع إنهاؤهم لدراساتهم في العام الدراسي 2023/2022 في عام 2023 والمتوقع إنهاؤهم لدراساتهم في عام 2024/2023 في عام 2024 مع التوضيح لكافة بياناتهم المالية والدراسية.

نوع (2): التعويضات والغرامات والنفقات الطارئة:

- يجب العمل على ترشيد وخفض نفقات هذا النوع، والاقتصار على ما هو ضروري للغاية، وبحيث لا تتجاوز تقديرات عام 2021 بعد تنزيل أية اعتمادات كانت قد رصدت في عام 2021 كمديونيات أو لمرة واحدة لأغراض غير متكررة في عام 2022 كحد أقصى للتقديرات.

#### الباب الرابع: اكتساب الأصول غير المالية:

- 1- تدرج المشاريع الممولة من مصادر تمويل خارجية (قروض ومنح) في موازنات وحدات السلطة المركزية.
- 2- تعطى الأولوية للمشاريع حسب الفئات التالية:

الفئة الأولى: المشاريع قيد التنفيذ والمشاريع المرتبطة بتمويل أجنبي وفي إطار

الاتفاقيات الموقعة.

الفئة الثانية: المشاريع المتعثرة من سنوات سابقة والتي سبق الإنفاق عليها وبدء تنفيذها

مع تنزيل تلك المشاريع المتعثرة التي تستخدم لأغراض المناقلة لمشاريع

وأغراض أخرى.

الفئة الثالثة: المشاريع الجديدة والملتزم بتنفيذها باتفاقيات تمويل أجنبي (قروض

ومنح) موقعة.

هذا وتؤكد وزارة المالية على عدم إدراج أية مشاريع جديدة بأي حال من الأحوال وفي حالة إدراج أية مشاريع جديدة سيتم تنزيلها من السقف المحدد ولن يُستفاد منها.

## مع مرعاه :

- التزام بالمبالغ التي سيتم الإبلاغ بها كسقف تأشيرية وإعادة ترتيب الأولويات في ضوءها وعدم تجاوزها بأي حال من الأحوال وإعداد مشاريع وتقديرات الباب الرابع في ضوء ذلك، وأي مشروع بالتجاوز سيتم إعادته ولن ينظر إليه وسيكتفى بالإعداد من قبل وزارة المالية وتحمل الجهة تبعات ما يترتب على ذلك.
- تحديد المشاريع الإنمائية المتعلقة بالمرأة بصورة واضحة (خاصة في مجال التعليم والصحة وأية مجالات أخرى مرتبطة بها).

### 3- على كافة الجهات المركزية والمحلية إرفاق كشف ببيانات المشاريع المدرجة بمشاريع موازاتها يتضمن الآتي:

- أ- اسم المشروع ونبذة مختصرة عن أهدافه والعمالة التي يمكن أن يستوعبها المشروع لانجازه.
- ب- الموقع الإقليمي للمشروع (إسم المحافظة والمركز)
- ت- تاريخ توقيع العقد، فترة تنفيذ المشروع بموجب ما هو محدد بالعقد، تاريخ استلام الموقع من المقاول
- ث- الإستثمارات المخصصة للمشروع في الخطة الجديدة
- ج- ما تم تنفيذه حتى العام المالي السابق عن العام المالي الحالي
- ح- المتوقع تنفيذه خلال العام المالي 2022
- خ- جملة الإنفاق الفعلي على المشروع حتى نهاية 2020، والإنفاق الفعلي للفترة (يناير - يوليو) 2021، بقية المعتمد للمشروع حتى نهاية عام 2021، نسبة الإنجاز المادي للمشروع، المتبقي من كلفة المشروع، تقديرات الأعوام 2022 و2023 و2024، وموازنة تفصيلية على مستوى البند والنوع لكل مشروع وتقدير الكلفة السنوية.
- د- الإستثمارات المقترحة للعام المالي 2022 والبرامج التمويلية المقترحة وفقاً للمكونات النقدية مقسمة على فترات ربع سنوية مع توزيع النقد الأجنبي المطلوب على نفس الفترات.
- ذ- الإستثمارات المطلوبة لإستكمال المشروع في السنوات التالية موزعة على سنوات التنفيذ ومصادر التمويل مع بيان التاريخ المتوقع لبدء التشغيل .
- ر- العائد الاقتصادي والاجتماعي المترتب على تنفيذ المشروع .
- ز- إرفاق المستندات التالية:

- كشف تحليلي بتقديرات الإنفاق على هذه المشاريع للأعوام 2022 و2023 و2024 (لكل مشروع على حدة).
  - صورة من اتفاقية التمويل الأجنبي (قرض أو منحة) في حالة وجود مشاريع ذات تمويل مشترك (محلي وأجنبي) مع الوثائق المتعلقة بوصف المشروع، وتحديد ما تتضمنه من مشاريع وبرامج مخصصة بالمرأة واعتماداتها.
  - صورة من عقد كل مشروع.
  - صورة من آخر مستخلص منصرف واستمارة ارتباط
- وسيتم تنزيل أية مشروع لا تتوفر بيانات ووثائق عنه من قبل الجهة
- 4- عدم رصد أية اعتمادات لحيازة أية أصول رأسمالية جديدة كالأثاث والتجهيزات والمعدات، أو أية ماكينات ووسائل نقل... الخ
  - 5- عدم رصد اعتمادات في الباب الرابع لمواجهة نفقات تشغيلية من قبل وحدات السلطة المحلية، وفي حالة رصد نفقات تشغيلية سيتم تنزيلها.

## الباب الخامس: اكتساب الأصول المالية وتسديدات الخصوم:

### الفصل الأول: الإقراض المحلي واكتساب أصول مالية محلية/ البند (3): الساهمات وحقوق

#### الملكية الأخرى/ الأنواع (1،2،3)/ و الأنواع (1، 2، 3) من البند الثالث من

## الفصل الثاني:

- تؤكد وزارة المالية على عدم إدراج أية اعتمادات ضمن هذا الباب تتعلق بهذا الشأن فيما عدا الأقساط المستحقة على مساهمة الحكومة في رؤوس أموال المنشآت المحلية أو الأجنبية على ألا تتجاوز مساهمة الحكومة في رؤوس أموال الوحدات المحلية ما هو محدد بالسقف التأشيرى للعام المالى 2022، وألا تتجاوز مساهمة الحكومة في رؤوس أموال الوحدات الأجنبية ما هو محدد بالسقف التأشيرى
- وفي حالة رصد أية اعتمادات ضمن هذا الباب فيجب ذكر اسم المؤسسة أو الهيئة

## الفصل الثالث: سداد القروض المحلية وإطفاء الأوراق المالية المحلية بخلاف الأسهم/ البند

### (1): إطفاء أوراق مالية بخلاف الأسهم/ النوع (3): أوراق مالية محلية

#### أخرى بخلاف الأسهم:

- يجب إدراج الاعتمادات اللازمة لسداد قيمة إصدار الصكوك الإسلامية المستحقة السداد فعلاً في العام 2022 (كل على حدة) وفقاً لعقود التمويل الموقعة. مع مراعاة إدراج الأرباح على إصدارات الصكوك الإسلامية المستحقة السداد فعلاً في ذات العام ضمن الباب (2)/ الفصل (3)/ البند (2)/ النوع (5): أوراق مالية وتجارية والتزامات أخرى.

## الفصل الرابع: سداد القروض الخارجية وإطفاء الأوراق المالية الخارجية بخلاف الأسهم/

### البند (2): سداد القروض الخارجية/ النوع (1): سداد القروض طويلة الأجل:

- تعد تقديرات هذا الفصل من قبل الجهات المختصة فقط بتسديد القروض الخارجية، مع الالتزام بإدراج الاعتمادات اللازمة لسداد أقساط القروض المستحقة للسداد في العام المالى 2022 (كل على حدة) وفقاً لاتفاقيات هذه القروض، وتجدر الإشارة إلى ضرورة قيد اسم الجهة المسدد لها واسم القرض.

## ثامناً: التبويب الوظيفي للنفقات العامة

على كافة وحدات السلطتين المركزية والمحلية إلى جانب إعدادها لتقديرات نفقاتها وفق نماذج وجدول التبويب الاقتصادي على مستوى الأبواب والفصول والبند والأنواع في ضوء التعليمات والأسس السابقة وبما لا يتجاوز السقف التأشيرى المبلغ لها، إعداد تقديرات هذه النفقات وفق النماذج والجدول الواردة في دليل التبويب الوظيفي على مستوى القسم والمجموعة والفئة والوحدة بما يتلاءم مع الغرض من النفقة في ضوء المفاهيم المحددة بالدليل لكل مستوى من مستويات التبويب الوظيفي.

## تاسعاً: مواعيد تقديم مشروع الموازنة العامة للعام المالى 2022

- تلزم المادة (88/أ) من الدستور، وكذا المادة (20) من القانون المالى رقم (8) لسنة 1990م وتعديلاته بعرض الموازنة العامة للدولة على مجلس النواب قبل شهرين على الأقل من بدء السنة المالية.
- وحتى تتمكن وزارة المالية من استلام موازنات الجهات وإعداد مشروع الموازنة التجميعية للسلطتين المركزية والمحلية بصيغة مشروع قانون الموازنة العامة للدولة فى ضوء السياسات والسقوف التأشيرى وعرضه على اللجنة العليا للموازنات ومجلس الوزراء ومناقشته وإحالتها بعد إقراره إلى مجلس النواب في الموعد السئوري المحدد.

## يتم الالتزام بالمواعيد المحددة التالية:

- 1- الأسبوع الثالث من شهر أغسطس 2021، آخر موعد لوحدات السلطة المركزية لتقديم مشاريع موازنتها إلى وزارة المالية مرفقاً معها كافة البيانات التي تم الإشارة إليها في هذا الكتاب مع إرسال صورة من تقديرات الباب الأول (أجور وتعويضات العاملين) إلى وزارة الخدمة المدنية والتأمينات وصورة من تقديرات الباب الرابع (اكتساب الأصول غير المالية) الي وزاره التخطيط والتعاون الدولي
- 2- الأسبوع الرابع من شهر أغسطس 2021 آخر موعد لاستلام مشاريع موازنات الوحدات الإدارية طبقاً للائحة المالية لقانون السلطة المحلية



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# ECONOMIC RECOVERY & LIVELIHOODS PROGRAM (ERLP) – YEMEN

TOWARDS AN ORGANIZED MTEF-BASED  
BUDGETARY PLANNING PROCESS IN YEMEN'S  
HEALTH AND EDUCATION SECTORS

ANNEX 20

June 2021

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## INTRODUCTION

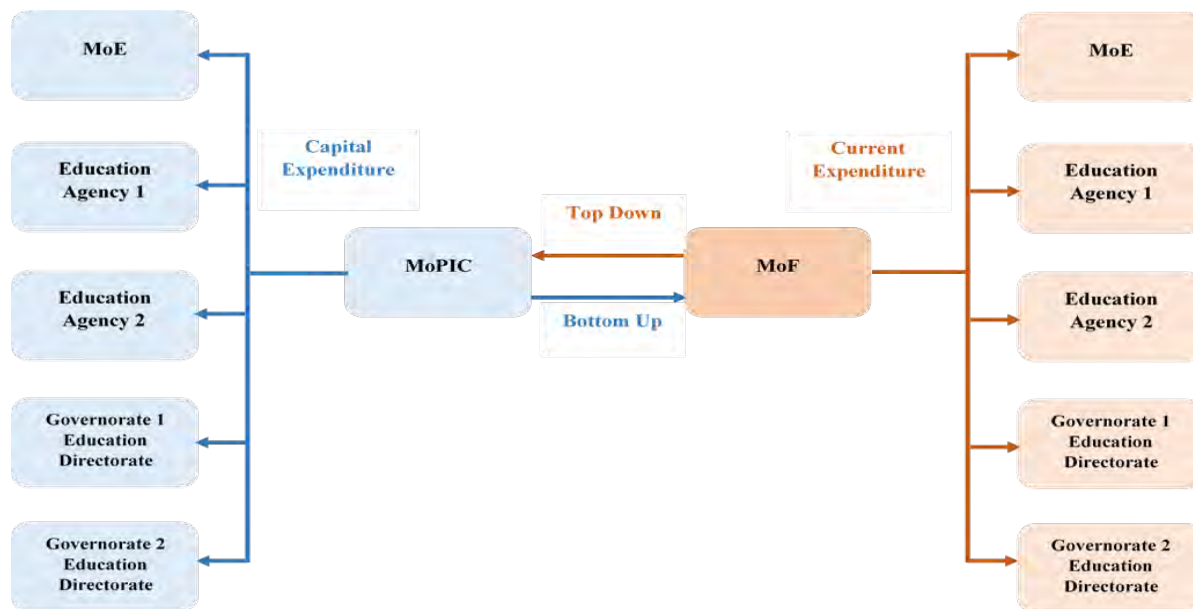
This document introduces the basic concepts required for establishing a Medium-Term Expenditure Framework (MTEF), to be implemented on a preliminary basis in two key pilot sectors: education and healthcare. It analyzes Yemen's current sectoral budgeting process and provides a roadmap for introducing initial MTEF concepts for these vital sectors. The initial MTEF conceptual framework has been developed through ongoing consultation with an intergovernmental committee composed of senior staff from the Ministries of Finance, Education, and Health.

## CURRENT SECTORAL BUDGETING IN YEMEN

The budget preparation process in Yemen is an ad-hoc planning system, bifurcated between recurrent and capital expenditures not based on any clear anticipated relationship between expenditure allocations and strategic policy objectives at the sectoral level. Over the past six years, Yemen has not followed a clear budget calendar that begins in March/April with the issuance of a budget circular and ends in December with a budget approval by Parliament. Overall, the system appears fragmented and inefficient.

All public education and health spending agencies at the central and local levels submit their respective proposals to the MoF and the Ministry of Planning and International Cooperation (MoPIC). Consequently, both sectors lack a consolidated budget submission and negotiation process. As reflected by Diagram 1, the MoE and MoH are at the same level as other spending agencies that should be 'subordinate' to them in a budgetary coordination sense.

**Diagram (1): Fragmented Sectoral Budget Process in Yemen's Education Sector**



Additionally, the MoF and MoPIC effectively share responsibility for recurrent and capital expenditure budgets, even though the MoF is ultimately responsible for budget consolidation. This arrangement results in an arbitrary and inefficient separation of recurrent and capital expenditures.

Budget fragmentation is compounded by a lack of rigid budget constraints. The MoF does not set budget ceilings at the beginning of the budget preparation process (i.e., within the initial budget circular). The lack of rigid constraints results in 'gaming' schemes by spending agencies that artificially inflate their budget submissions, so the MoF and MoPIC will reduce their request.

Continued conflict and the consequent absence of adequate planning and clear strategic vision also complicates the process. The MoE's and MoH's inability to set strategic policies and goals results in fragmented and short-term objectives based on operational needs in response to the conflict. Table I highlights the current main features of Yemen's sectoral budgeting process.

**Table I: Key Features of the Sectoral Budgeting Process in Yemen**

Inefficient Financial Allocation Practices	Fragmented Budgeting Processes	Lack of Strategic Guidelines within the Budgeting System
<ul style="list-style-type: none"> <li>• Lack of program-based, result-oriented budgeting practices</li> <li>• Absence of a time-framed fiscal management perspective</li> <li>• Weak links between recurrent and capital expenditures</li> </ul>	<ul style="list-style-type: none"> <li>• Each government entity belonging to each of the two sectors, education and health, has its budget.</li> <li>• Lack of enforcement of budget ceilings on government entities.</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of an overall strategic plan from socio-economic development and fiscal policy perspective from Ministries of Healthcare and Education</li> <li>• Each spending unit has fragmented policy objectives that does not link to an overarching government plan</li> <li>• No type of cost/benefit or cost-efficiency analysis is applied to test the validity of the economic objectives set by each spending unit</li> </ul>

**INTRODUCTION OF MTEF SECTORAL BUDGETING IN YEMEN**

Strategic budgeting seeks to link core strategic objectives and performance measures with the budget process. Before 2014, the MoF had planned to move from line-item-based budgeting to program-based budgeting in cooperation with key line ministries to develop strategic plans, including the education and health sectors. Regrettably, ongoing internal armed conflict delayed that plan, and the transfer of ministries from Sanaa to Aden and concomitant loss of technical capacity eliminated institutional momentum. Consequently, the budgeting process continues to revolve around a multitude of budgetary units with little or no coordination.

A medium-term expenditure framework (MTEF) establishes core strategic objectives for a given major sectoral expenditure area and related output-based budgeting goals. As shown in Table I, current features of the sectoral budgeting process in Yemen do not align with MTEF principles. Line ministries do not perform strategic planning activities, which constitute an essential feature of the MTEF. Developing strategic plans for key sectors and matching these to their functional classification is key to reintroducing MTEF in Yemen.

Given this situation, the ERLP advisors are working with the MoF to introduce a preliminary version of MTEF in the education and health sectors. This version is limited to the central level at the MoE and MoH. It is also based on initial strategic objectives developed with these ministries. In this regard, the

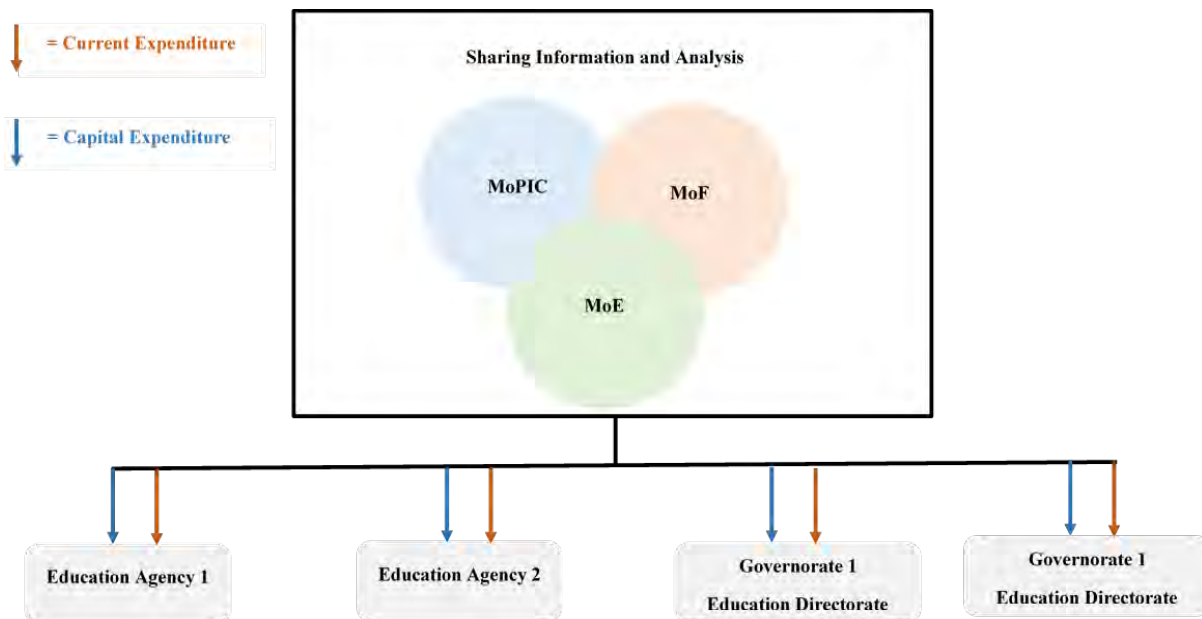
MoF established a committee that includes representatives from other ministries, namely MoPIC, MoE, and MoH. Below, we detail the results of the planning discussions with the MTEF inter-ministerial committee to advance the introduction of basic medium-term expenditure principles within the budget process for health and education.

This process also entailed workshops with committee members on core MTEF procedures and strategic planning guidelines. Moreover, relevant MoE and MoH budgetary officials participated in workshops assessing strategic planning needs across the two ministries.

## KEY ACTIONS FOR THE INTRODUCTION OF MTEF IN THE EDUCATION AND HEALTH SECTORS

The ERLP/Fiscal team and the MoF have agreed on an MTEF approach that begins with (1) establishing a global financial ceiling for the MoE and MoH and their relevant spending units; (2) discussing with each ministry and its spending units the estimated cost of critical sectoral policy priorities; and (3) adjusting the cost as needed in light of likely available resources. In turn, this adjustment process should occur on an iterative basis between the MoF, MoPIC, and the respective line ministries. Diagram 2 displays the relationship among the MoF, MoPIC, and respective line ministries, using the MoE as an example, under the envisaged MTEF-based approach.

**Diagram (2): Ministerial Relationship under the MTEF Approach**



As agreed with the MoF, the MTEF should incorporate the same fundamental level of detail as the budget document itself. ERLP has also worked extensively with the MTEF Committee to initiate key MTEF introductory actions and related responsibilities for each ministry in this effort. The process is based on the MoF's readiness to issue 3-year budget ceilings as part of the budgetary planning process. It encompasses the following four phases:

### **Phase I: Actions Required Prior to Issuing MTEF Ceilings**

First, the MoE and MoH calculate the financial implications of current and new policy directions and related potential changes to existing policies. Both ministries should undertake the following tasks to complete this phase:

- Revisit current policies and key objectives.
- Define changes to existing policies based on new priorities.
- Define new policies based on recent legislation enacted, if any.
- Project fiscal implications for the entire 3-year MTEF period.
- Discuss fiscal implications with the MoF and MoPIC

### **Phase II: Actions Following Issuance of MTEF Circular**

Based on a thorough analysis of MoE and MoH policies and program objectives, the MoF and MoPIC approve aggregate budget ceilings, including recurrent and capital expenditures and any donor financing, as shown in Table 2. The MoE and MoF MTEF task force should lead this phase based on proposals from their respective planning and budget departments.

**Table 2: Steps for Defining Performance Framework and MTEF**

<ol style="list-style-type: none"><li>a. Identify objectives, performance measures, and targets.</li><li>b. Allocate expenditures to outputs through the costing of specific tasks.</li><li>c. Verify unit costs</li><li>d. Close financial gaps, ensuring that total expenditures do not exceed program ceilings</li><li>e. Present alternative scenarios +/-5% over established ceilings, indicating which output will be impacted by increased/reduced allocations and targets.</li></ol>
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### **Phase III: MTEF Contestability Process**

When submitting final MTEF submissions, respective ministries should internally discuss allocations for priority programs/objectives developed by the related working groups, based on an overall assessment of projected performance.

Following a comprehensive review by their respective statistics/monitoring department, MoE and MoH MTEF task forces submit final versions of their individual MTEF proposals for internal approval. The concerned minister signs the MTEF portfolio budget proposal and submits it to MoF with internal management approval.

### **Phase IV: MTEF Hearings with the MoF and MoPIC**

The MoF and MoPIC hold MTEF hearings with high-level delegations from the MoE and MoH to discuss policy issues underpinning proposed expenditures.

The MoE/MoH undersecretary leads their respective delegation during MTEF Hearings. Following hearing deliberation, the MoE/MoH MTEF Task Force, supported by their respective Planning and Budget Departments, revises the MTEF Performance and Expenditures Framework based on final decisions made by the MoF and MoPIC.

For this phase, the ERLP team is working with the MTEF Committee to: 1) establish an MTEF task force in the MoE and MoH after identifying MTEF focal points; 2) adopt a common MTEF terminology among relevant ministries (MoF, MoPIC, MoE, and MoH) through related outreach sessions; 3) estimate the cost of achieving major objectives of the MoE and MoH in cooperation with their respective policy, planning and budgeting staff; and 4) assist the MoF and MoPIC in determining appropriate budget ceilings for the education and health sectors at the central level. Technical engagement in these areas will represent an intensive focus of project activity during the coming months.



# ECONOMIC RECOVERY & LIVELIHOODS PROGRAM (ERLP) – YEMEN

## GFIS-COMPLIANT BUDGET CODING MANUAL TO BE ADOPTED IN YEMEN

### ANNEX 2 I

June 2021

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This document provides a preliminary manual that will allow the MoF to update its economic and functional budget classification system in compliance with the IMF's GFS Manual, 2014 Edition (GFSM 2014). ERLP, in collaboration with MoF and MOPIC senior staff, has introduced this revised classification manual for the Functions of Government (COFOG), which represents an integral aspect of the wider IMF GFS framework. This classification is critically important for purposes of facilitating efficient tracking of sectoral policies and objectives against related budgetary allocations.

## INTRODUCTION

A sound budget classification system is crucial to budgetary transparency and coherence. The International Monetary Fund (IMF) emphasizes the importance of the budget classification system for enhancing decision making and improving accountability. The budget classification system supports policy formulation and performance analysis, helps ensure the efficient allocation of resources and compliance with the approved budget, and enhances day-to-day budget execution. According to the IMF, a sound budget classification system exhibits the following key characteristics:

- a) **Comprehensiveness:** Budgets should include a complete and consolidated presentation of all operations of the government.
- b) **Unity:** Unity refers to the efficiency of resource allocation and the inclusion of all revenues and expenditures.
- c) **Internal Consistency:** This principle dictates that the recurrent expenditures required for operations and maintenance be reflected in the budget and that recurrent and capital expenditures be consolidated under a single entity.

Given the critical importance of fiscal analysis and transparency, the IMF developed the Government Finance Statistics Manual (GFSM) to strengthen a given country's fiscal analysis. Developed based on accrued accounting concepts, the GFSM provides the economic and statistical reporting principles needed for compiling statistics, as well as guidelines for presenting fiscal statistics within a prescribed macroeconomic statistical framework. The IMF recommends that all countries adopt GFSM classification structures to facilitate the adoption of accrual concepts in their respective government accounting systems. The IMF issued the latest GFSM in 2014.

In 2011, Yemen embarked on a reform of its public financial management system that would incorporate a budget classification system compatible with IMF's GFS methodology. This reform effort followed a Public Expenditure and Financial Accountability (PEFA) assessment conducted in 2008 that resulted in a "C" rating based on the economic and administrative classification of budget formulation and execution in Yemen. However, recent efforts to adopt a functional classification system, budget formulation, and execution have not produced any tangible results.

Based on an analysis conducted by ERLP fiscal advisors, reforms undertaken in 2011 led to a solid GFS-compatible economic budget classification system. However, a functional classification system requires significant further reforms. In particular, the Financial Law of Yemen (adopted in 1990 and amended in 1999) requires categorizing government accounts by function. Functional classification progress has also been affected by institutional capacity challenges following the MoF's move to Aden. Currently, the MoF employs a 5-function classification system covering general services, education, health, social services, and economic classifications, while GFS-compliant functional classification spans ten functions. The fiscal team is working with the MoF to introduce the Classification of the Functions of Government (COFOG) and update its economic budget classification system such that it is consistent with GFSM 2014.



**The Classification of the Functions of Government (COFOG)** is a detailed classification of the functions or socio-economic objectives that governments wish to achieve through various types of capital expenditures. COFOG is integral to the IMF's GFS and is incorporated through an annex to GFSM 2014.

## **GFS 2014**

GFSM 2014 consists of an update of the internationally recognized guidelines for compiling statistics required for macroeconomic and fiscal analysis contained in GFSM 2001. Other statistical manuals include the overarching System of National Accounts 2008 (2008 SNA) and two specialized manuals: the sixth edition of the Balance of Payment and International Investment Position Manual (BPM6) and the Monetary and Financial Statistics Manual (MFSM). Updates to these two manuals have been developed in compliance with the 2008 SNA to jointly provide a comprehensive methodology for conducting macroeconomic and fiscal analyses. For debt-related issues, GFSM 2014 is supplemented by Public Sector Debt Statistics: A Guide for Compiler and Users (PSDS Guide) and the External Debt Statistics: Guide for Compiler and Users, 2013 (2013 EDS Guide).

The revised manuals and guides address important international economic developments and improve the recording and methodological treatment of various types of events. Furthermore, the development of International Public Sector Accounting Standards and continued efforts to harmonize statistical reporting and financial reporting have led to additional changes in the GFSM 2014. These include:

- a) Methodological changes in 2008 SNA
- b) Clarification of existing methodological guidelines
- c) Presentational/editorial improvements

In general, GFSM 2014 classifications remain largely the same as GFSM 2001. However, some tables now include an expanded list of classification items, while others have been dropped. Nonetheless, there are no changes in the aggregate and balancing items of converted data when compared with the data produced following the GFSM 2001 methodology. IMF now reports all international GFS data in the GFSM 2014 format, including historical data.

## **CLASSIFICATION OF THE FUNCTIONS OF GOVERNMENT**

The objective of the **Classification of the Functions of Government (COFOG)** is to provide a detailed classification of the functions/socioeconomic objectives that governments hope to achieve through various types of expenditures. COFOG applies to all current expenditures and the net acquisition of non-financial assets. Transactions in financial assets and liabilities are not classified according to COFOG.

COFOG consists of three levels of detail: divisions, groups, and classes. Divisions describe the broad objectives of government, while groups and classes define how objectives are achieved. Table 1 illustrates the classification structure, while Table 2 presents a description of the COFOG divisions and relevant GFS 2014 codes.

**Table 1: COFOG Classification Structure**

Level	Level Name
1	Division (two-digit)
2	Groups (three-digit)
3	Classes (four-digit)

**Table 2: COFOG Divisions and GFS Codes**

COFOG Divisions	Description	GFSM 2014 Code
01 General Public Services	Executive and legislative organs, financial and fiscal affairs, external affairs; foreign economic aid; general services; basic research; R&D related to general public services; general public services N.E.C. (not elsewhere classified); public debt transactions; transfers of a general nature between different levels of government.	701
02 Defense	Military defense; civil defense; foreign military aid, R&D related to defense; defense N.E.C.	702
03 Public Order and Safety	Police services; fire protection services; courts; prisons; R&D related to public order and safety; public order and safety N.E.C.	703
04 Economic Affairs	General economic, commercial, and labor affairs; agriculture, forestry; fishing and hunting; fuel and energy; mining, manufacturing, and construction; transport; communication; other industries, R&D related to economic affairs; economic affairs N.E.C.	704
05 Environment Protection	Waste management; water waste management; pollution abatement; protection of biodiversity and landscape; R&D related to environmental protection.	705
06 Housing and Community Amenities	Housing development; community development; water supply; street lighting; R&D related to housing and community amenities; housing and community amenities N.E.C.	706
07 Health	Medical products, appliances, and equipment; outpatient services; hospital services; public health services; R&D related to health; health N.E.C.	707
08 Recreation, Culture, and Religion	Recreational and sporting services; cultural services; broadcasting and publishing services; religious and other	708

COFOG Divisions	Description	GFSM 2014 Code
	community services, R&D related to recreation, culture, and religion; recreation; culture and religion N.E.C.	
09 Education	Pre-primary, primary, secondary, and tertiary education; post-secondary non-tertiary education; education not definable by level; subsidiary services to education; R&D; education N.E.C.	709
10 Social Protection	Sickness and disability; old age; survivors; family and children; unemployment; housing; R&D; social protection and social exclusion N.E.C.	710

### Key attributes of COFOG

COFOG represents a standard classification that allows for comparison between and among countries. It is also used to prepare national accounts according to the System of National Accounts methodology, which identifies government expenditures that benefit individual households. Additionally, COFOG allows for the examination of trends in government outlays regarding particular functions or purposes over time. It is also used to distinguish between individual and collective services provided by the government. However, conventional government accounts are usually not suited for this, as they reflect organizational structures of government. These may change, and organizations in government may be responsible for more than one function, or a particular function might be shared among multiple organizations.

### Cross-Classification of Outlays by Function and Economic Type

The GFSM pays particular attention to the cross-classification of economic and functional classifications, as shown in Table 3. The cross-classification of COFOG with each of the categories of expenses is extremely useful, as it allows for the analysis of:

- a) Inputs and how governments perform a given function, as well as outputs, which show what governments are doing;
- b) How governments carry out their public expenditure policy functions to meet social objectives;
- c) Changes in the composition of expenditures over time to address specific policy objectives; and
- d) How specific functions are carried out by the government.

**Table 3: Cross-Classification of Expenditure by Functional and Economic Classification**

COFOG Divisions	Employee Compensation [GFS]	Use of goods and services	Consumption of Fixed Capital [GFS]	Interest [GFS]	Subsidies	Grants	Social Benefits [GFS]	Other Expenses	Net Investment in Non-Financial Assets
01 General Public Services									
02 Defense									
03 Public Order and Safety									
04 Economic Affairs									
05 Environmental Protection									
06 Housing and Community Amenities									
07 Health									
08 Recreation, Culture, and Religion									
09 Education									
10 Social Protection									

**Table 4: Example of Cross-Classification of Outlay**

<u>Economic Type (percent)</u>				
Function	Wages & Salaries	Other Expense	Fixed Assets	Total
Education	59.0	18.3	22.7	100.0
Health	81.9	11.2	6.9	100.0

## The Classification of Expenditure by Functions of the Government According to Divisions and Groups

**Table 5: General Public Services Division**

<b>Code</b>	<b>Description</b>
<b>70100</b>	<b>General Public Services</b>
<b>70110</b>	<b>Executive and Legislative Organs, Financial and Fiscal Affairs, External Affairs</b>
70111	<i>Executive and Legislative Organs</i>
70112	<i>Financial and Fiscal Affairs</i>
70113	<i>External Affairs</i>
<b>70120</b>	<b>Foreign Economic Aid</b>
70121	<i>Economic Aid to Developing Countries and Countries in Transition</i>
70122	<i>Economic Aid Routed through International Agencies</i>
<b>70130</b>	<b>General Services</b>
70131	<i>General Personnel Services</i>
70132	<i>Overall Planning and Statistical Services</i>
70133	<i>Other General Services</i>
<b>70140</b>	<b>Basic Research</b>
<b>70150</b>	<b>R&amp;D General Public Services</b>
<b>70160</b>	<b>General Public Services N.E.C.</b>
<b>70170</b>	<b>Public Debt Transactions</b>
<b>70180</b>	<b>Transfers of a General Character between Different Levels of Government</b>

**Table 6: Sample Groups under the General Public Services Division**

Class	Includes	Excludes
<b>70111 Executive and Legislative Organs</b>	Office of the chief executive at all levels of government — office of the monarch, governor-general, president, prime minister, governor, mayor, etc.; legislative bodies at all levels of government—parliaments, chambers of deputies, senates, assemblies, town councils, etc.; advisory, administrative, and political staffs attached to chief executive offices and legislatures; libraries and other reference services serving mainly executive and legislative organs; physical amenities provided to the chief executive, the legislature, and their aides; permanent or ad hoc commissions and committees created by or acting on behalf of the chief executive or legislature.	Ministerial offices, offices of heads of departments of local governments, interdepartmental committees, etc., concerned with a specific function (classified according to function).
<b>70112 Financial and Fiscal Affairs</b>	Financial and fiscal affairs and services at all levels of government.	Underwriting or flotation charges and interest payments on government loans (70170); supervision of the banking industry (70411).

**Table 7: Defensive Division**

70200	Defense
70210	Military Defense
70220	Civil Defense
70230	Foreign Military Aid
70240	R&D Defense
70250	Defense N.E.C.

**Table 8: Sample Group under the Defensive Division**

Group	Includes	Excludes
<b>70220 Civil Defense</b>	Administration of civil defense affairs and services; formulation of contingency plans; organization of exercises involving civilian institutions and populations; operation or support of civil defense forces.	Civil protection services (70320); purchase and storage of food, equipment, and other supplies for emergency use in the case of peacetime disasters (71090).

**Table 9: Public Order and Safety Division**

70300	Public Order and Safety
70310	Police Services
70320	Fire Protection Services
70330	Courts
70340	Prisons
70350	R&D Public Order and Safety
70360	Public Order and Safety N.E.C.

**Table 10: Sample Groups under the Public Order and Safety Division**

Group	Includes	Excludes
<b>70310 Police Services</b>	Administration of police affairs and services, including alien registration, issuing work and travel documents to immigrants, maintenance of arrest records and statistics related to police work, road traffic regulation and control, prevention of smuggling, and control of offshore and ocean fishing, operation of regular and auxiliary police forces of port, border, coast guards, and of other special police forces maintained by public authorities; operation of police laboratories; operation or support of	Police colleges offering general education in addition to police training (7091), (7092), (7093), or (7094).

	police training programs and traffic wardens.	
<b>70320 Fire protection services</b>	<p>Administration of fire prevention and firefighting affairs and services.</p> <p>Operation of regular and auxiliary fire brigades and other fire prevention and firefighting services maintained by public authorities, operation or support of fire prevention and firefighting training programs.</p> <p>Civil protection services such as mountain rescue, beach surveillance, evacuation of flooded areas, etc.</p>	Civil defense (70220); forces especially trained and equipped for fighting or preventing forest fires (70422).

**Table II: Economic Affairs Division**

<b>70400</b>	<b>Economic Affairs</b>
<b>70410</b>	<b>General Economic, Commercial, and Labor Affairs</b>
70411	<i>General Economic and Commercial Affairs</i>
70412	<i>General Labor Affairs</i>
<b>70420</b>	<b>Agriculture, Forestry, Fishing, and Hunting</b>
70421	<i>Agriculture</i>
70422	<i>Forestry</i>
70423	<i>Fishing and Hunting</i>
<b>70430</b>	<b>Fuel and energy</b>
70431	<i>Coal and Other Solid Mineral Fuels</i>
70432	<i>Petroleum and Natural Gas</i>
70433	<i>Nuclear Fuels</i>
70434	<i>Other Fuels</i>
70435	<i>Electricity</i>



<b>70400</b>	<b>Economic Affairs</b>
70436	<i>Nonelectric Energy</i>
<b>70440</b>	<b>Mining, Manufacturing, and Construction</b>
70441	<i>Mining of Mineral Resources Other Than Mineral Fuels</i>
70442	<i>Manufacturing</i>
70443	<i>Construction</i>
<b>70450</b>	<b>Transport</b>
70451	<i>Road Transport</i>
70452	<i>Water Transport</i>
70453	<i>Railway Transport</i>
70454	<i>Air Transport</i>
70455	<i>Pipeline and Other Transport</i>
<b>70460</b>	<b>Communication</b>
<b>70470</b>	<b>Other Industries</b>
70471	<i>Distributive Trades, Storage, and Warehousing</i>
70472	<i>Hotels and Restaurants</i>
70473	<i>Tourism</i>
70474	<i>Multipurpose Development Projects</i>
<b>70480</b>	<b>R&amp;D Economic Affairs</b>
70481	<i>R&amp;D General Economic, Commercial, and Labor Affairs</i>
70482	<i>R&amp;D Agriculture, Forestry, Fishing, and Hunting</i>
70483	<i>R&amp;D Fuel and Energy</i>
70484	<i>R&amp;D Mining, Manufacturing, and Construction</i>
70485	<i>R&amp;D Transport</i>

<b>70400</b>	<b>Economic Affairs</b>
70486	<i>R&amp;D Communication</i>
70487	<i>R&amp;D Other Industries</i>
<b>70490</b>	<b>Economic Affairs N.E.C.</b>

**Table 12: Sample Groups under the Economic Affairs Division**

<b>Class</b>	<b>Includes</b>	<b>Excludes</b>
<b>70411 General Economic and Commercial Affairs</b>	<p>Administration of general economic and commercial affairs and services, including general foreign commercial affairs; formulation and implementation of general economic and commercial policies; liaison among different branches of government and between government and business.</p> <p>Regulation or support of general economic and commercial activities such as export and import trade, commodity and equity markets, overall income controls, general trade promotion activities, general regulation of monopolies and other restraints on trade and market entry, etc., supervision of the banking industry.</p> <p>Operation or support of institutions dealing with patents, trademarks, copyrights, company registration, weather forecasting, standards, hydrologic surveys, geodetic surveys, etc.</p> <p>Grants, loans, or subsidies to promote general economic and commercial policies and programs.</p> <p>Consumer education and protection.</p>	Economic and commercial affairs of a particular industry (classified to (7042) through (7047) as appropriate).
<b>70443 Construction</b>	Administration of construction affairs and services; supervision of the construction industry; development	Excludes: grants, loans, and subsidies for the construction of housing, industrial buildings, streets, public utilities, cultural facilities, etc.

Class	Includes	Excludes
	<p>and regulation of construction standards.</p> <p>Production and dissemination of general information, technical documentation, and statistics on construction affairs and services.</p> <p>Issuance of certificates permitting occupancy, an inspection of construction sites for conformity with safety regulations, etc.</p>	(classified according to function); development and regulation of housing standards (70610).

**Table 13: Environmental Protection Division**

70500	Environmental Protection
70510	Waste Management
70520	Wastewater Management
70530	Pollution Abatement
70540	Protection of Biodiversity and Landscape
70550	R&D Environmental Protection
70560	Environmental Protection N.E.C.

**Table 14: Sample Groups under the Environmental Protection Division**

Group	Includes	Excludes
<b>7051 Waste Management</b>	<p>Collection, treatment, and disposal of waste.</p> <p>The waste collection includes sweeping of streets, squares, paths, markets, public gardens, parks, etc.; a collection of all types of waste, whether selective by type of product or undifferentiated covering all waste, and their transport to the place of treatment or discharge.</p>	

Group	Includes	Excludes
	<p>Waste treatment includes any method or process designed to change the physical, chemical, or biological character or composition of any waste to neutralize it, to render it nonhazardous, to make it safer for transport, to make it amenable for recovery or storage, or to reduce it in volume.</p> <p>Waste disposal includes the final placement of waste for which no further use is foreseen by landfill, containment, underground disposal, dumping at sea, or any other relevant disposal method.</p> <p>Administration, supervision, inspection, operation, or support of the waste collection, treatment, and disposal systems.</p> <p>Grants, loans, or subsidies to support the operation, construction, maintenance, or upgrading of such systems.</p> <p>Collection, treatment, and disposal of nuclear waste.</p>	

**Table 15: Housing and Community Amenities Division**

70600	Housing and Community Amenities
70610	Housing Development
70620	Community Development
70630	Water Supply
70640	Street Lighting
70650	R&D Housing and Community Amenities
70660	Housing and Community Amenities N.E.C.

**Table 16: Sample Groups under the Housing and Community Amenities Division**

Group	Includes	Excludes
<p><b>70620 Community Development</b></p>	<p>Administration of community development affairs and services; administration of zoning laws and land-use and building regulations.</p> <p>Planning of new communities or rehabilitated communities; planning the improvement and development of facilities such as housing, industry, public utilities, health, education, culture, recreation, etc., for communities; preparation of schemes for financing planned developments.</p> <p>Production and dissemination of general information, technical documentation, and statistics on community development affairs and services.</p>	<p>Plan implementation—that is, the actual construction of housing, industrial buildings, streets, public utilities, cultural facilities, etc. (classified according to function); agrarian reform and land resettlement (70421); administration of construction standards (70443) and housing standards (70610).</p>
<p><b>70660 Housing and Community Amenities</b></p>	<p>Administration, operation, or support of activities such as formulation, administration, coordination, and monitoring of overall policies, plans, programs, and budgets relating to housing and community amenities; preparation and enforcement of legislation and standards relating to housing and community amenities; production and dissemination of general information, technical documentation, and statistics relating to housing and community amenities.</p>	

**Table 17: Health Division**

<b>70700</b>	<b>Health</b>
<b>70710</b>	<b>Medical Products, Appliances, and Equipment</b>
70711	<i>Pharmaceutical Products</i>
70712	<i>Other Medical Products</i>
70713	<i>Therapeutic Appliances and Equipment</i>
<b>70720</b>	<b>Outpatient Services</b>
70721	<i>General Medical Services</i>
70722	<i>Specialized Medical Services</i>
70723	<i>Dental Services</i>
70724	<i>Paramedical Services</i>
<b>70730</b>	<b>Hospital services</b>
70731	<i>General Hospital Services</i>
70732	<i>Specialized Hospital Services</i>
70733	<i>Medical and Maternity Center Services</i>
70734	<i>Nursing and Convalescent Home Services</i>
<b>70740</b>	<b>Public Health Services</b>
<b>70750</b>	<b>R&amp;D Health</b>
<b>70760</b>	<b>Health N.E.C.</b>

**Table 18: Sample Groups Under the Health Amenities Division**

Group/ Class	Includes	Excludes
<p><b>70724 Paramedical Services</b></p>	<p>Administration, inspection, operation, or support of health services delivered by clinics supervised by nurses, midwives, physiotherapists, occupational therapists, speech therapists, or other paramedical personnel and of health services delivered by nurses, midwives, and paramedical personnel in non-consulting rooms, patients' homes, or other nonmedical institutions.</p> <p><i>Includes:</i> acupuncturists, chiroprodists, chiropractors, optometrists, practitioners of traditional medicine, etc.; medical analysis laboratories and x-ray centers; hire of therapeutic equipment; medically prescribed corrective gymnastic therapy; outpatient thermal bath or sea-water treatments; ambulance services other than ambulance services operated by hospitals</p>	<p>Public health service laboratories (70740); laboratories engaged in determining the causes of disease (70750).</p>
<p><b>70740 Public Health Services</b></p>	<p>Administration, inspection, operation, or support of public health services, such as blood bank operation (collecting, processing, storing, shipping), disease detection (cancer, tuberculosis, venereal disease), prevention (immunization, inoculation), monitoring (infant nutrition, child health), epidemiological data collection, family planning services, and so forth.</p> <p>Preparation and dissemination of information on public health matters.</p>	<p>Medical analysis laboratories (70724); laboratories engaged in determining the causes of disease (70750).</p>

**Table 19: Recreation, Culture and Religion Division**

<b>70800</b>	<b>Recreation, Culture, and Religion</b>
70810	Recreational and Sporting Services
70820	Cultural Services
70830	Broadcasting and Publishing Services
70840	Religious and Other Community Services
70850	R&D Recreation, Cultural, and Religion
70860	Recreation, Culture, and Religion N.E.C.

**Table 20: Sample Groups under the Recreation, Culture and Religion Division**

<b>Group</b>	<b>Includes</b>	<b>Excludes</b>
<b>70840 Religious and Other Community Services</b>	<p>Administration of religious and other community affairs.</p> <p>Provision of facilities for religious and other community services, including support for their operation, maintenance, and repair.</p> <p>Payment of clergy or other officers of religious institutions; support for the holding of religious services; grants, loans, or subsidies to support fraternal, civic, youth, and social organizations or labor unions, and political parties.</p>	

**Table 21: Education Division**

<b>70900</b>	<b>Education</b>
<b>70910</b>	<b>Pre-primary and Primary Education</b>
70911	<i>Pre-primary Education</i>
70912	<i>Primary Education</i>



70900	Education
70920	<b>Secondary Education</b>
70921	<i>Lower Secondary Education</i>
70922	<i>Upper Secondary Education</i>
70930	<b>Post-Secondary Nontertiary Education</b>
70940	<b>Tertiary Education</b>
70941	<i>First stage Tertiary Education</i>
70942	<i>Second stage Tertiary Education</i>
70950	<b>Education Not Definable by Level</b>
70960	<b>Subsidiary Education Services</b>
70970	<b>R&amp;D Education</b>
70980	<b>Education N.E.C.</b>

**Table 22: Sample Groups under the Education Division**

Group	Includes	Excludes
<b>70930 Post-Secondary Nontertiary Education</b>	<p>Provision of post-secondary nontertiary education at ISCED-97 level 4.</p> <p>Administration, inspection, operation, or support of institutions providing post-secondary nontertiary education at ISCED-97 level 4.</p> <p>Scholarships, grants, loans, and allowances to support students pursuing post-secondary nontertiary education at ISCED-97 level 4.</p> <p><i>Includes:</i> Out-of-school post-secondary nontertiary education for adults and young people.</p>	Subsidiary services to education (70960).
<b>70950 Education Not Definable by Level</b>	Provision of education not definable by level (i.e., educational programs,	

Group	Includes	Excludes
	<p>generally for adults, that do not require any special prior instruction vocational training and cultural development).</p> <p>Administration, inspection, operation, or support of institutions providing education not definable by level</p> <p>Scholarships, grants, loans, and allowances to support students pursuing education programs not definable by level.</p>	
<b>70960 Subsidiary Education Services</b>	<p>Provision of subsidiary services to education.</p> <p>Administration, inspection, operation, or support of transportation, food, lodging, medical and dental care, and related subsidiary services chiefly for students regardless of level.</p>	<p>School health monitoring and prevention services (70740); scholarships, grants, loans, and allowances in cash to defray the costs of subsidiary services (7091), (7092), (7093), (7094), or (7095).</p>

**Table 23: Social Protection Division**

71000	Social Protection
71010	Sickness and Disability
71011	<i>Sickness</i>
71012	<i>Disability</i>
71020	Old Age
71030	Survivors
71040	Family and Children
71050	Unemployment
71060	Housing
71070	Social Exclusion N.E.C.
71080	R&D Social protection

<b>71000</b>	<b>Social Protection</b>
71090	Social Protection N.E.C.

**Table 24: Sample Groups under Social Protection Division**

<b>Group</b>	<b>Includes</b>	<b>Excludes</b>
<b>71070 Social Exclusion N.E.C.</b>	<p>Provision of social protection in the form of cash benefits and benefits in kind to persons who are socially excluded or at risk of social exclusion (such as persons who are destitute, low-income earners, immigrants, indigenous people, refugees, alcohol and substance abusers, victims of criminal violence, etc.).</p> <p>Administration and operation of such social protection schemes</p> <p>Cash benefits, such as income support and other cash payments to the destitute and vulnerable persons to help alleviate poverty or assist in difficult situations.</p> <p>Benefits in kind, such as short-term and long-term shelter and board provided to destitute and vulnerable persons, rehabilitation of alcohol and substance abusers, and services and goods to help vulnerable persons, such as counseling, day shelter, help with carrying out daily tasks, food, clothing, fuel, etc.</p>	
<b>71090 Social protection</b>	<p>Administration, operation, or support of activities such as formulation, administration, coordination, and monitoring of overall social protection policies, plans, programs, and budgets; preparation and enforcement of legislation and standards for the provision of social protection; production and dissemination of general information, technical documentation, and statistics on social protection.</p>	

Group	Includes	Excludes
	Provision of social protection in the form of cash benefits and benefits in kind to victims of fires, floods, earthquakes, and other peacetime disasters; purchase and storage of food, equipment, and other supplies for emergency use in the case of peacetime disasters; other social protection affairs and services that cannot be assigned to (7101), (7102), (7103), (7104), (7105), (7106), (7107), or (7108).	

## USING COFOG

This report provides general guidelines for assigning government units to a specific COFOG class. Compilers of specific reports and statistics should refer to the IMF GFS manual 2014 or later IMF guidance in assigning COFOG coding to specific organizational units.

### Assigning COFOG Codes

To produce a report on government expenditures by COFOG categories, compilers should produce a respective dataset on budgetary expenditures or actual expenditures by a particular unit and sub-unit of the government, as well as investment projects and subsidy transfers, with as much detail as possible.

COFOG codes are assigned at the class level – the most detailed level of the COFOG classification.

The MoF should invite respective line ministries to explain in detail the responsibilities of new subordinate government units being set up, new investment projects initiated, or subsidy schemes devised or restructured. The function of expenditures should be discussed in terms of the COFOG classification to assign the appropriate codes.

Government units should be assigned a COFOG code or several codes depending on the function being executed. Most MoF units in central and local government structures would perform the tasks of administration of financial and fiscal affairs and services, management of public funds and debt, operation of taxation schemes, operation of budget management, treasury, customs functions, accounting and auditing services, production and dissemination of general information, and technical documentation and statistics on financial and fiscal affairs and services. Such units would be assigned to COFOG class 70112, Financial and Fiscal Affairs. Meanwhile, the Finance Institute operating under MoF auspices would be assigned to function 70930, Post-Secondary Non-Tertiary Education, as the primary function of the institute is training, not financial and fiscal services delivery.

On some occasions, one government unit may execute several functions simultaneously (e.g., the Ministry of Labor and Social Affairs executes functions which may be assigned to COFOG classes **70412, General Labor Affairs**, and **71090, Social Protection N.E.C.**) The Ministry of Public Works and Infrastructures may embark primarily on projects categorized under COFOG class **70451, Road Transport**, but may also undertake projects requiring a different COFOG assignment.

Governments should exercise their best judgment when allocating specific COFOG classes for expenditures belonging to more than one COFOG class. In this regard, governments should:

- a) Identify a sub-unit in the government unit to attribute to a specific COFOG class, separating out its budget and actual expenditures.
- b) Identify specific COFOG functions for all capital projects, as many could be implemented by government units with broad responsibilities for public works.
- c) Identify the recipient of government subsidies that could be paid by a government unit with a different COFOG designation.

Dominant government functions should be devised, and respective COFOG class codes assigned for government units in instances where it is not possible to determine specific codes for the sub-unit. Alternatively, MoF experts may agree on percentage shares assigned to a unit performing several functions simultaneously.

A similar approach should be used to assign COFOG codes to sub-units within line ministries and local governments. The MoF should provide an appropriate point of contact for line ministries and local governments for COFOG assignment consultation purposes.

The MoF should establish a procedure for reviewing COFOG codes assigned to prevent errors. Responsibility for the review should be assigned to staff responsible for the compilation of the COFOG data.

### **Producing and disseminating COFOG reports**

Government units should maintain COFOG codes in an MS Excel spreadsheet, which could be incorporated into an automated Government Financial Management Information System (GFMIS) and used for reporting purposes.

Reports on the allocation of government expenditures by government function according to COFOG classifications should be attached to key budget documents and periodic budget execution reports (monthly, quarterly, and annual).



# ECONOMIC RECOVERY AND LIVELIHOODS PROGRAM (ERLP) IN YEMEN

## ORGANIZATIONAL RESTRUCTURING PLAN FOR THE MOF TO IMPROVE THE BUDGET EXECUTION

### ANNEX 22

June 2021

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## List of Acronyms

CBY	Central Bank of Yemen
GFMS	Government Financial Management Information System
ICT	Information and Communication Technology
MOF	Ministry of Finance
SU	Spending unit
TSA	Treasury single account



## I. INTRODUCTION

The Yemeni conflict led to the relocation of the Ministry of Finance (MOF) headquarters to Aden, causing the loss of qualified staff and organizational cohesion. This report addresses the capacity challenges and reviews the options for improved organization structure to discharge budget execution functions effectively. It targets the challenges arising from the Budget Execution Action Plan, emphasizing specific reform priorities to address the performance challenges.

ERLP experts met the representatives of different units of the MOF to understand the current practices and assess the challenges. The analysis and recommendations herein reflect the knowledge gathered through these interviews. As a result, ERLP experts have developed a comprehensive restructuring plan for the MOF to cover all Regulations and Government Accounts Department functions. This department requires restructuring to perform all functions of the financial execution of the national budget, including the concentration and custody for cash inflows, the complete expenditures cycle, and the responsibilities for coordinating the financing of the difference between the revenues and expenditures.

## II. INTERNATIONAL PRACTICES

A finance ministry assumes multiple generic functions; the concentration of these functions in one organizational structure presents challenges and requires crucial policy decisions. The IMF provides a systematized view of the core functions as provided in Chart I below.

In addition to budget preparation and execution, the MOF also typically assumes several different tasks such as the following:

- Economic Policy and Planning, including the preparation of medium-term fiscal framework, as well as fiscal policy formulation and analysis
- Financial sector regulations
- Various administrative functions of the resource management
- Execution of government ownership and financial monitoring functions over state-owned enterprises
- Internal audit
- Financial management information systems

Many countries delegate their government revenue functions to their finance ministries, allowing their finance ministries to consolidate responsibilities for executing the revenue and expenditure parts of the budget. The placement of key revenue agencies outside the MOF's purview reduces the MOF's authority and increases the burden of coordinating policy, financial management, and budget execution matters at higher levels.

Some countries concentrate policymaking and related analytical functions in the main body of the MOF, while the executive functions are frequently concentrated in separate agencies reporting to the Minister of Finance, e.g., Customs Authority, Tax Revenue Authority, or the Treasury.

**Chart I. Typical Core Functions of a Ministry of Finance**

Economic Policy and Planning	Budget Preparation	Budget Execution (excluding Wage Bill)	Resource Management	Debt and Cash Management	Production of Financial Information	State and Other Entities
Macroeconomic and development policies	Medium-term budgeting	Expenditure chain	Recruitment and Career	Cash forecasting	Budget end-of-year closing	Government portfolio management
The policy of reform and financial programs	Budget preparation	Budgetary controls	Payroll	Liquidity management	Book-keeping and accounting	Financial oversight of the public sector
Financial sector regulation and monitoring		Procurement	Training	Treasury Single Account management	Financial statement production	
Focus on capital expenditures (planning, budgeting, and execution)			Common services	Debt management	Government finance statistics	
Internal control and audit						
Financial information systems						

Treasury functions

Source: IMF Working Paper “The Evolving Function and Organization of Finance Ministries,” November 2015

Internationally, most countries concentrate the budget execution functions into either a government treasury, being a part of the MOF organization structure, an agency reporting to the Minister of Finance, or an institute of the Accountant General – a key government official in charge of the government accounts. Irrespective of the official title, the key responsibilities regarding budget execution typically concentrate on the following:

- Custody over the collected government revenues
- Budget controls during budget implementation
- Cash and debt management to ensure smooth government payment and savings on interest expenditure
- Payment processing and associated controls
- Accounting and account reconciliation
- Collection and aggregation of the government financial data
- Production and dissemination of the government financial data and statistics
- Issue (directly or through guidance from the Minister of Finance) of detailed regulations for spending units regarding the government financial management
- Additional functions to improve the quality of budget execution and government financial management.

The segregation between budget execution and budget preparation allows the Budget office of the MOF to focus on resource allocation decisions, which require a considerable amount of policy analysis and evaluating the options for government policies. Relieving the budget office from tasks related to budget execution typically allows the budget office to focus on strategic tasks, such as improving the quality of budget allocation decisions. Typically, the budget office’s tasks during the budget execution cycle are limited to reviewing requested changes to the approved budget and monitoring the budget performance. These actions ensure that spending units execute their budgets in line with the agreements reached during budget formulation and that changes to the budget do not undermine national priorities.

Meanwhile, the organizational unit responsible for budget execution follows all steps of the budget execution cycle, starting from the approved budget document. This process begins with the detailed budget implementation documents, including in-year spending plans for spending units, the delegation of spending authority from line ministries to secondary and tertiary spending units, authorization and record of budget commitments, and execution payments against the commitments.

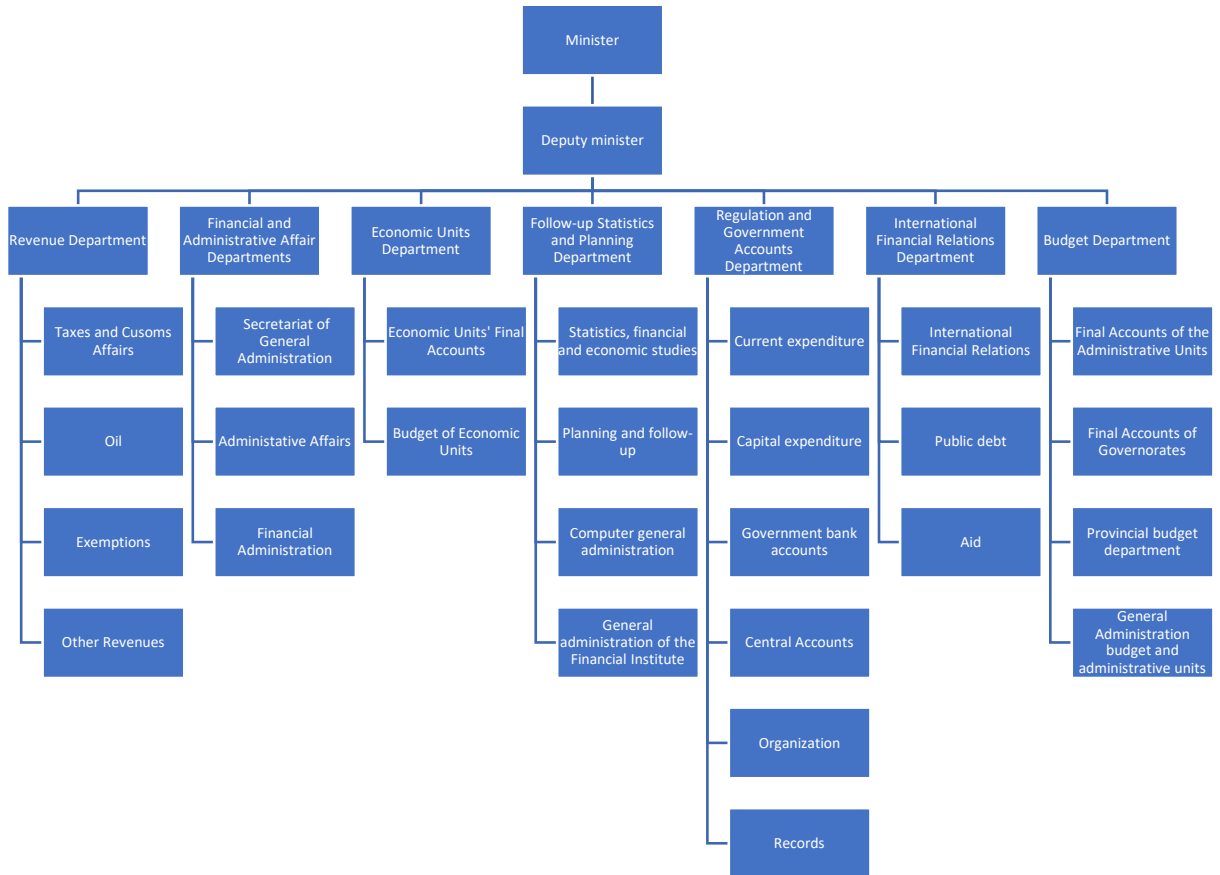
A modern accounting system is a crucial prerequisite for an efficient budget execution function. The accounting system provides critical controls for ensuring that transactions are processed according to required budget and financial management rules and gives critical information on the status of the budget execution processes. Reporting from the accounting system produces vital information necessary for effective budget management and financial accountability.

### **III. THE CURRENT ORGANIZATIONAL STRUCTURE**

Chart 2 illustrates the current organizational structure of the MOF: The Ministry is led by a Minister and assisted by a Deputy Minister. The Ministry has seven main departments:

- Revenue
- Financial and Administrative Affairs
- Economic Units
- Follow-up Statistics and Planning
- Regulations and Final Accounts (Budget Execution)
- International Financial Relations
- Budget

**Chart 2. Yemen – Current Organization Structure of the Ministry of Finance**



Specifically, the Regulations and Final Accounts Department consists of six divisions:

- Current Expenditures
- Capital Expenditures
- Government Bank Accounts
- Central Accounts
- Organization
- Records

The key responsibilities of the current expenditure division are to issue authorization for recurrent expenditures with information to the requesting ministry and the Central Bank of Yemen (CBY), including the provision of regulations and guidance on financial regulations for payroll payment and other recurrent expenditures. The division also has the responsibility for preparing monthly and quarterly statements and reports on recurrent expenditures.

The capital expenditure division has primary responsibility for tracking capital expenditures. The division monitors the status of authorization for each capital project.

The government bank accounts division maintains responsibility for receiving bank statements and producing daily, monthly, and quarterly data regarding budget transactions processed through

government bank accounts. The division supplies units of the MOF with bank information and ensures reconciliation of budget revenue and expenditure records with the bank records.

The central accounts division has responsibility for managing central appropriations, including issuing authorizations, recording actual expenditures, and producing periodic data on central appropriations performance.

The organization division has responsibility for organizational classification of government units in the center and governorates, improvement of procedures for government payments and collection of receipts, keeping and controlling the accounting records, supervising the representatives of the MOF in spending units, establishing/merging/reorganizing and liquidating government accounting units, regulations on managing cash on hand, checkbooks/payment claims, as well as training government staff in accounting and financial management practices.

The records division is responsible for reporting authorized disbursements to the CBY, record keeping, and producing periodic reports on disbursement. The division also monitors staffing levels and follows up on transfer decisions.

#### **IV. ASSESSMENT**

The current organizational structure of the MOF lacks many important features required for improved budget execution. Specifically, the shortcomings have been as follows:

- Analytical functions allowing the collection and systemization of actual and future cash flow data are absent, leaving the burden of treasury management with the CBY.
- The functions of debt management have been absent from the MOF, and are carried out by the CBY instead.
- The records of appropriations and allotment releases have been decentralized, and fail to ensure the necessary controls and reporting. The appropriations and allotment releases constitute a nominal approval procedures, carried out with no prior checking/assurance that cash balances will be available at the time that payments are to be processed.
- The accounting function has been decentralized, resulting in significant delays in consolidating the necessary data, and providing management and the public with adequate information regarding fiscal performance. Moreover, the data collection and reporting functions regarding budget revenue and expenditure have been spread throughout different departments of the MOF.
- The payment function is fully transferred to the CBY, and the MOF does not have effective control over payment processes.

The delays in budget approval for 2021 have resulted in additional tasks related to temporary appropriations management, causing further unpredictability regarding funding availability. Moreover, the absence of functionally integrated units within the Regulations and Government Accounts Department has resulted in a relatively weak control environment, preventing improvement in internal workflows in the department.

The ROYG budget spends a significant portion of funds on wage/salary payments. It is clear that the employee compensation system maintains inadequate financial controls, and will be subject to ongoing

abuse in the absence of improved supervision by the Ministries of Civil Service and Finance. In this regard the payroll control functions are currently part of the Current Expenditure Division of the Section of Regulation and Final Accounts.

The use of paper media for accounting records and decentralized computers to aid the recording functions has been an additional significant reason for poor coordination of the budget execution cycle and the lack of critical information for timely decision making. Consequently, these issues reflect the absence of an integrated Government Financial Management Information System (GFMIS) to ensure effective execution of the government financial operations. The absence of GFMIS presents one of the central obstacles to improved budget execution. Developing and implementing an integrated GFMIS solution will require a multi-year technical and administrative upgrading process and significant financial and technical resources.

## **V. THE BUDGET EXECUTION DEPARTMENT**

The overall responsibility for the budget execution needs to be consolidated in the Budget Execution Department. This department should transition into a government treasury once the treasury management functions transfer from the CBY. The department would be the main counterpart of the CBY in collecting government receipts and processing government payments. This cooperation should facilitate the transition to a unified Treasury Single Account (TSA) mechanism.

The Budget Execution Department should be responsible for the financial management of the approved government budgets, organizing the issuance of allotments, authorizing commitments, making cash releases, organizing government banking arrangements to collect the government revenue, and processing expenditure payments. The Budget Execution Department should also produce periodic, ad hoc reports to reflect the transactions processed against approved and allotted budgets.

Developing new information and communication technology (ICT) tools and solutions would assist in replacing routine manual effort with automated processes. However, the complexity of such advanced system and associated costs are considerable. The acquisition and implementation of these tools can improve the quality of information and government business processes over time, and will need to be phased in over a multi-year period; with simpler semi-manualized interim solutions followed to facilitate enhanced budget execution efficiency over the short-to-medium term.

The Budget Department should remain responsible for the quality of budget decisions and allocation of budget funds. Conversely, the Budget Execution Department should focus on the quality of budget execution to facilitate the achievement of core expenditure objectives. The Budget Department should not be involved in the budget execution process, except when authorizing changes in the approved budget.

The Budget Execution Department would cooperate with revenue collecting agencies to supply them with statements of revenue deposited to the government bank account. It should also be expected to cooperate with line ministries, governorates, and spending units through the Representatives of the MOF assigned to these units. Ultimately, these measures would ensure that the ministries and agencies implement and follow financial regulations and guidelines.

These new budget execution responsibilities imply important new analytical functions as well. These functions include government cash flow forecasting activities, the development of detailed cash plans, and debt panning and management formulation and tracking activities.

## **VI. PROPOSED NEW STRUCTURE**

ERLP experts have recommended a new structure, organized along functional lines of responsibility, to facilitate efficient distribution of tasks within the department and support greater activity specialization and enhanced institutional capacity development. Within this context, the Budget Execution Department would benefit from organizing its budget execution staff in eight functional groups comprising the following divisions:

- Budget records
- Cash and debt management
- Treasury operations
- Payroll controls
- Payment controls
- Accounting and reporting
- Organization
- ICT

### **I. BUDGET RECORDS**

Budget records is a current function within the MOF involving maintenance of the records for budget appropriations, allotments, and changes during the fiscal year; including the notifications to concerned parties. Centralizing the budget records function ensures the integrity of these records while providing a rigorous reference point for the status of appropriations, allotments, and other authorizations before payment authorization/processing actions.

Commitment records should be kept together with the budget records, considering the central role of commitment controls in reserving allocated budgetary resources for purposes of ordering goods and services. Therefore, the segregation of responsibilities between the expenditure execution cycle stages should separate the payment stage from the budget and commitment records function, the latter concentrated in the Budget Records Division.

Records of appropriated budget, budgetary allocations to the secondary and tertiary budget units of line ministries and governorates, as well as entering of any changes related to budgetary authorizations, should be controlled centrally. Thus these responsibilities should be concentrated in one division of the Budget Execution Department, designed to ensure that budget allotments, payment commitments, and cash releases do not exceed the approved budget. Presently, the responsibilities of the central accounts division overlaps with this function, and the proposed organizational structure would rectify these conflicts.

In sum, additional tasks allocated to the budget records division under this approach would be expected to include the following:

- Recording the **financial plans of spending units** to include the distribution of the annual budget (by month) to effectively track authorizations for spending units entering into commitments and cash releases
- Providing a clear procedural framework for **recording budget commitments**
- Providing commitment and payment controls to specific suppliers, including maintenance of a central register (database) of government suppliers (vendors)

## 2. CASH MANAGEMENT

The cash management function does not exist in the MOF organization structure at present. The role of the Cash Management Division should focus on supplying management with an accurate outlook on cash availability for the effective balancing of cash inflows against outflows.

The central tasks of the Cash Management Division would include:

- Preparing a daily statement of the cash resources available for payment and relaying that to MOF management.
- Collecting (forecasting) immediate payment requests (obligations) coming due during the current and following month.
- Preparing a cash flow forecast for the full fiscal year (including a monthly forecast), which identifies all sources of funds for covering the approved budget. Upon consultation with the Joint Committee of the Management of the Treasury, MOF management should approve the cash plan based on the referenced cash-flow forecast.
- Calculating the resources available for allocation to spending units, according to the priorities established by MOF management, and providing this information to the General Administrations of Current Expenditures and Capital Expenditures (for purposes of monthly budgetary allotments)
- Updating cash flow forecasts regularly, identifying major risks for cash plan implementation, and reporting regularly to JCMT and MOF management
- Requesting data from government authorities as needed to substantiate cash flow forecasts, and assist in presenting accurate information to MOF management regarding expected cash flows.
- Coordinating with the debt management unit to ensure that all information flows related to debt service, repayment, cash inflows from new borrowing activities, and related liquidity cushioning needs are accurately reflected in the cash flow forecasts
- Conducting an assessment of requirements for full and effective operationalization of an efficient TSA mechanism
- Serving as the secretariat of the JCMT, including engagement of JCMT technical experts and the management, and recording of JCMT meeting minutes

## 3. DEBT MANAGEMENT

The CBY currently executes core government debt management functions. The MOF should consider gradual reassumption of these responsibilities, initially through preparation of debt service and amortization payment transactions and direct articulation of an organized borrowing and debt management strategy. This strategy would also include a direct role in leading negotiations with existing and potential lenders, and planning the issuance of marketable debt securities. The newly established ERLP-supported Debt Management Committee can play a critical role in facilitating effective inter-



institutional coordination on core debt planning/management functions and the related gradual transfer of key debt planning/tracking activities from CBY to the MOF.

#### **4. TREASURY OPERATIONS**

The payment operations processed through bank accounts under MOF control and other bank accounts that will ultimately be linked to a soundly-coordinated TSA mechanism need to be consolidated under this division. Most of these tasks are completed by the Government Bank Accounts Division, except for the payment function, which is fully decentralized to individual spending units.

Specifically, the Treasury Operations Division should be responsible for the following tasks:

- Authorizing all payment transactions presented for central processing
- Verifying that the accounting records for transactions to be processed to and from MOF bank accounts are properly recorded in accounting ledgers
- Recording receipt transactions to the consolidated MOF treasury account according to established procedures
- Reconciling the MOF ledger record with bank statements for government bank accounts, resolving any differences and initiating accounting entries for correction
- Providing data on transactions to the relevant staff

The Treasury Operations Division should be prohibited from initiating any payment transactions to preserve the integrity of their control and accounting functions. The Treasury Operations Division should reject the transactions or post them to the ledgers according relevant regulatory requirements.

#### **5. PAYMENT CONTROLS**

The Payment Control Division would oversee the verification of control requirements for all outgoing payments processed through the government Treasury. The division staff responsible for control functions should not have the authority to prepare payment documents. Different levels of detailed control requirements may be established for different expenditure categories, based on associated budgetary deficiency/fraud prevention risks.

#### **6. PAYROLL CONTROL**

In addition to controlling payment activities, the Payroll Control Division should ensure that rigorous control measures for identifying individuals receiving salary payments are adopted and adequately introduced. The Payroll Controls Division should cooperate with the Ministry of Civil Service to acquire, launch, and utilize an integrated government payroll system. Their cooperation would facilitate the storage and update of personnel records, the documentation of attendance, and the completion of payroll calculations to facilitate efficient ex-ante control and ex-post audit activities. The division would also arrange the opening of employees' accounts for direct payroll deposit purposes with financial institutions or financial intermediaries.

#### **7. ACCOUNTING AND REPORTING**

The MOF should consolidate the accounting and reporting functions within one unit to serve as a focal point for producing standard fiscal and financial data for MOF management and the general public. The MOF should separate accounting and reporting tasks from both broader fiscal policy formulation

processes and activities related to the entering of records into ledgers. In the near term, a predetermined fiscal reporting data structure should be established in the absence of a comprehensive GFMS solution. MOF divisions and departments should be expected to transmit their daily and monthly data to the Accounting and Reporting division the Budget Execution Department. Consequently, this division would be empowered to follow up on any identified inconsistencies in the data and produce periodic, ad hoc reports on these matters.

## **8. ORGANIZATION**

The Organization Division should maintain its current responsibilities, including drafting government financial management regulations and related guidance, assigning Representatives of the MOF to accounting units and evaluating their ongoing performance, and providing capacity-building support for the officers responsible for financial management within government line ministries/agencies.

## **9. INFORMATION AND COMMUNICATIONS TECHNOLOGY**

This could be either a separate division of the Budget Execution Department, or a separate unit within the MOF that provides the necessary ICT services, network, database, and applications management to ensure efficient budget planning and implementation processes. In the absence of a dedicated GFMS Unit operating on a ministry-wide basis, the ministry should make the following short-to medium term technological software adaptation measures to achieve required improvements in the Information and Communications Technology Area for budget execution:

- An improvement in access of the MOF offices to communications, including stable access to the Internet and over a corporate network, and secure communications with the CBY.
- The use of shared databases for financial data, including databases for storing the budget appropriations, budget allotment, and actual revenue and expenditures recorded against budgetary ceilings.
- A specialized application for automation of civil service (government employee) payroll calculations, and to facilitate direct deposit services into employee bank account.

In the medium term, a successful Treasury organization could be established through acquisition and implementation of a robust GFMS solution; while simultaneously supporting a comprehensive TSA arrangement.

## **VII. NEXT STEPS**

ERLP experts have discussed the key concepts and approaches involved in reorganizing the Budget Execution Department of the MOF with senior MOF officials. Further clarifications will be provided as needed as the MOF prepares to approve the proposal, detailed job descriptions that will be developed, and a related capacity development plan will be established as well moving forward.