

Position Paper :

Economic Repercussions of Coronavirus Disease (COVID-19) & Methods of Mitigation of Risks

Yemen

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ECONOMIC REFORM TEAM - YEMEN

فريق الاصلاحات الاقصاديه - اليمن

Introduction

The Economic Reform Team (ERT) is aware of the huge catastrophe the repercussions of which on the economic and humanitarian conditions are emerging as a result of the outbreak of COVID-19 throughout the world. It also recognizes the negative developments that are likely to take place in this regard at the economic and humanitarian levels. ERT, therefore, contributes this position paper which reviews the challenges and methods of countering the economic and humanitarian repercussions of COVID-19.

Although no COVID-19 cases have been reported at the time of drafting this report, negative effects have started to cast a shadow on the situation in Yemen. Certainly, the disaster will be greater in the case of a COVID-19 outbreak in the country, especially in view of the fragile health system in Yemen due to the ongoing war that has ravaged the country for five years.

This hazardous situation requires the mobilization of all efforts and capabilities to confront the pandemic, especially in view of the challenges faced by the developed countries in fighting this pandemic, in spite of their capabilities that far exceed the modest health sector capacities in Yemen.

COVID-19 Economic Repercussions

The repercussions of COVID-19 have begun to cast a shadow over the situation in Yemen. This can be seen in the meagre stockpile of basic commodities stockpile and delay of delivery of imported goods, especially as Yemen relies mainly on imports. Moreover, preventive procedures such as home quarantine, curfews and other restrictions and procedures required to counter the pandemic will lead to further economic stagnation. Many employees in the service, industrial and commercial sectors will also lose their jobs.

Those tracing the negative consequences of the pandemic find it difficult to determine its effects at the current stage, as we are still at the initial stage of the crisis. Besides, the fragility and internal divisions in official Yemeni institutions further complicates the tragic consequences of the pandemic, but we will try to focus on the most important consequences at the current stage.

1. Meagre commodity and supplies stock

Certainly, the outbreak of COVID-19 has paralyzed the global economy and caused a significant slowdown in the production and exportation processes. Therefore, countries, such as Yemen, that depend on imports of most of their needs of basic commodities, will be vulnerable to such negative effects.

According to UNVIM data, there was a noticeable decline in the volume of imported oil and basic commodity imports in February, as the volume of imports unloaded in the Hodeidah and Salif ports, which are subject to UNVIM control, decreased by 71,000 tons, compared to December 2019, while the volume of oil derivatives decreased by 54,000 tons.

The decline in opening documentary credits for the purpose of importing basic commodities during the past few months will inevitably lead to a major problem in the commodity stock and covering the local needs during the forthcoming months. Therefore, there is a crucial need in Yemen to take urgent measures to overcome the negative repercussions by providing liquidity in hard currency and increasing the level of opening documentary credits for the import of basic commodities.

2. fall of oil prices

The decrease in global oil prices by more than 58%, as prices have fallen by 20-25 dollars per barrel, will cast a shadow on the deficit in government revenues while the government was planning to export 30 million barrels in 2020, thus increasing the level of budget deficit and affecting the balance of payments negatively.

3. Reduced expatriate remittances

The global crisis caused by the COVID-19 is likely to be reflected in the remittances of Yemeni expatriates. Those remittances constitute an important portion of Yemen's foreign exchange resources. The economic recession that has beaten the countries where Yemeni

expatriates are concentrated, particularly Saudi Arabia, will lead to a decline in the remittances of Yemeni expatriates in those countries that might reach 60-70%.

4. Diminishing aid to Yemen

The difficult situation currently facing the Yemeni economy coincides with the new tendency of the United Nations to reduce the level of aid provided to Yemen. This UN attitude is taken as donors and relief workers increasingly assert that “they can no longer guarantee the delivery of food aid to millions of people who are entitled to aid. They further assert that “the working environment in northern Yemen has worsened significantly in the past few months to the extent that humanitarian workers can no longer manage the risks related to delivering aid in current quantities.”¹ This new position will have major consequences not only on the humanitarian situation as hundreds of thousands of Yemeni families depend on aid, but its negative consequences will also be reflected on Yemen’s hard currency reserves, which will lead to fluctuation of exchange rates and thus will cause an upsurge of prices of goods and services in the country.

5. Losses in the tourism and service sector

The tourism, travel and related services sector is one of the key economic sectors affected by the repercussions of the COVID-19. Despite the poor tourism movement between Yemen and the outside world due to the war in Yemen, the consequences of closing the borders and suspending visas (work visas, Umrah, visits) and the decline of in-country travel across cities have resulted in huge losses in the tourism industry and related services, such as hotels, restaurants and transport companies.

Many small- and medium-sized enterprises operating in this sector have provided their employees with unpaid leaves, as many of those businesses are facing increasing difficulties due to the going current crisis.

This difficult stage requires exerting all efforts and taking full responsibility by all parties and demands working to absorb the shock, and mitigate its consequences through a series of holistic policies and decisions, besides viewing the crisis from a national angle and taking into account the interests of citizens and preserving their lives in the first place.

Most governments have rushed to protect their people from the economic impact of this global health crisis. Therefore, those most affected should be protected from falling as victims to bankruptcy or losing their sources of income. Owners of restaurants and factories and employees at factories or companies that closed their doors due to quarantine measures need support and assistance to overcome the crisis.

¹ “Cutting down aid to Yemen under the Houthis,” Reuters, 06 Feb., 2020, last accessed 01 April 2020. <https://ara.reuters.com/article/idARAKBN2001V1>

Measures to face consequences of the crisis

It is urgent at this stage that all parties in Yemen shall assume their responsibility and unconditionally undertake an immediate ceasefire and stop all military operations, so that the energy of all Yemenis shall be directed to face this serious pandemic. Efforts shall be based on a unified mechanism and coordination with international organizations and the private sector to contain the disaster.

Therefore, efforts in this respect require several procedures that shall be adopted by all parties concerned both at home and abroad. The division of labor and tasks among all parties concerned to mitigate the effects of the pandemic is very crucial at the current stage. It is also crucial to adopt a clear road map to reduce the economic effects of the pandemic, which are no less dangerous than the health disaster represented by the loss of life.

From the ERT point of view, responsibilities can be distributed as follows:

- **Responsibility of the authorities**
 - Setting up a unified entity by authorities in Aden and Sana'a to manage the crisis so that the team is empowered to take decisive decisions and work jointly to limit the repercussions of the pandemic on the Yemeni people and mitigate the disaster.
 - Issuing a package of economic policies that seek to alleviate the serious economic consequences of the pandemic. These are as follows:
 - Canceling the decision to ban dealing in the newly printed Yemeni currency banknotes, while completely stopping any new banknote prints.
 - Prompt payment of salaries of Yemeni public employees by the Yemeni government in all regions of Yemen to enable them face the repercussions of the pandemic.
 - Facilitating the procedures for importing food and consumer products through Yemeni ports and ensuring the smooth flow of goods, while taking the necessary measures to ensure safety and quality of products through speeding up customs clearance procedures and cargo handling in Yemeni ports and customs ports.
 - Pumping of cash in the local and foreign currencies to banks to face the repercussions of the economic recession and help citizens obtain soft loans and canceling interest rates on loans provided to citizens to face the repercussions of the current crisis. The Central Bank of Yemen (CBY), local banks and donating international organizations shall contribute to supporting this aspect.

- Advocacy of taking decisions to provide subsidized credit to companies and facilitate procedures for the provision of medical equipment and other vital activities that fall within the scope of responding to the pandemic.
- Suspending tax and customs duties on basic commodities in order to facilitate citizens' access to those goods at the lowest possible prices.
- Cancelling all fees and taxes collected on highways and between cities, and allowing the smooth and unimpeded transit of basic consumer goods.
- Facilitating humanitarian relief operations carried out by international and local organizations working in the relief and humanitarian field, both for individuals and institutions, and expanding the scope of cash and in-kind assistance programs provided to poor Yemeni families, to include the citizens affected by the crisis.
- Allocating direct financial support to companies and institutions affected by the pandemic in the form of soft loans to help those companies and institutions deal with the losses incurred by them. This shall be carried out in coordination and partnership with international financial institutions and donors as part of the package of measures undertaken by countries and organizations to mitigate the repercussions of the COVID-19 on the various countries.
- Taking urgent measures to support vulnerable groups by disbursing social welfare benefits and providing cash transfers to families in dire need of assistance.
- Providing direct financial support to families most affected by the crisis.
- Prompt improvement of Internet services by utilizing the submarine cable (Aden-Djibouti) and the new submarine cable AEE1 situated in Aden, as well as allowing the installation of the SMW5 cable branch in Al Hodeidah. Such measures will allow providing Internet services at speeds high enough to meet the needs of citizens and companies at the present time. The Ministry in Sana'a and telecommunication companies shall make quick arrangements to distribute and improve Internet services to all governorates without any exceptions.
- Creating a joint coordination / consultative team with the private sector to cope with the challenges and put quick remedies in place to overcome those challenges.

- **Responsibility of international organizations and donors**

- Undertaking real and serious efforts to found a common entity in Aden and Sana'a to manage the crisis and the ensuing economic repercussions in partnership with international organizations, the private sector and civil society.
- International organizations shall undertake their responsibility to save the Yemeni people from COVID-19 by providing support to import all preventive equipment, devices and medicines necessary to fight the pandemic.
- Providing direct financial and technical support to the Yemeni authorities to meet the challenges of importing commodities, basic foodstuffs and paying the salaries of civil servants, as well as assisting individuals and institutions affected by the pandemic.
- Providing direct financial support to the poor and affected groups through safe mechanisms and methods that guarantee fair and transparent distribution.

- **Responsibility of the private sector**

The private sector is responsible for several measures in response to the outbreak of COVID-19. Its responsibilities can be summed up as follows:

- Showing the highest level of responsibility by providing goods to citizens at the lowest prices possible.
- Refraining from greedy practices such as monopolizing commodities or raising their prices, and contenting themselves with a limited margin of profits at the current stage.
- The private sector has a responsibility to care for employees and workers in the private sector and support them to face the consequences of the pandemic.
- Following safety guidelines and rules to prevent the outbreak of the pandemic among the private sector workforce and also by ensuring that COVID-19 is not transmitted through the various goods and products.
- Mobilizing the various private sector institutions in the governorates and cities (chambers of commerce and other institutions) and working with the various community initiatives and civil society organizations to play positive roles, whether in the health / epidemiological, relief or social aspects.

Issued by the Economic Reform Team (ERT)

ERT is a voluntary initiative comprising private sector elite and economic experts. It aims at enabling the private sector to contribute in a unified and effective manner to decision-making and participation in developing visions, strategies and policies to promote economic reforms and stimulate economic growth in Yemen, by mobilizing individual energies in the various sectors across the map of the country.

Since its inception, the team has played an important role in improving economic policies in Yemen through presenting several visions and proposals to Yemeni decision makers which aimed at promoting economic reforms.

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