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Inclusive Growth: Requirements For Resuming the Economy and The Repercussions of the Crisis –Cas of Yemen

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Abstract

The study aimed to diagnose the impact of the crisis on the Yemen economy and the requirements for Path (approach) correction to achieve inclusive growth in Yemen. It adopted the descriptive approach and the case study approach to answer the problem. The study concluded the necessity of rehabilitating institutions, continuing financial adjustment measures, protecting the poor in an urgent manner, and rebuilding fiscal space in the short term to support the economy and contain the repercussions of the crisis.

Keywords: *Economic decline, inclusive growth, poverty, decline living, VAR, MENAP, Fragile and conflict affected economies.*

JEL: *A14, E31, E60, I10, I12.*

Introduction

The general scene in Yemen remains tense and portends more severe situations in the medium and short term, despite many internal and external initiatives to alleviate the long-standing conflict. Nearly a decade after the outbreak of the conflict, the Yemeni economy was exposed to severe shocks that greatly and profoundly affected a wide segment of society, and despite the circumstantial calm between the parties to the conflict, but its repercussions continue to cast a shadow over society and the country, as well as the economy, which has depleted its capabilities and placed it on a path of severe decline (collapse), or so it has become!. In the same context, due to the intensification of the conflict between the parties, this situation left the economy characterized by a state of uncertainty and instability at the level of all sectors and fields, which increased the risks of uncertainty in the medium term, especially with regard to the return to conditions of balance in all sectors of the economy, and worse in... The monetary and financial sector witnessed exceptional cases with the presence of two currencies!! The situation may move towards two central banks - Discreetly- which calls for urgent rescue plans to save what remains of the capabilities of the economy in Yemen from a severe decline (collapse).

a) The problematique :

Based on this background. The challenge facing economic policy setters in Yemen is to pursue a real correction path in order to resume economic activities in the medium term. The situation may require the preparation of broad reform programs to contain the effects of the protracted conflict, especially those that have directly impacted society, children and women in particular.

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Therefore..., this paper comes to investigate the problem of “the requirements that would correct the course to achieve inclusive growth in the medium term.” This is a theoretical proposal to achieve inclusion and restore the capabilities of society in Yemen, based on strengthening health and food security as a basic building block in order to achieve this and as a hypothesis. proposed for this paper.

Accordingly, this paper is considered a theoretical framework from our point of view as a proposal to correct the path of the economy and achieve inclusive growth, especially after the economic decline. So, the problem will be solved by addressing the following:

1. A scene of the repercussions of the conflict on the economy in Yemen.
2. Economic developments and inclusive growth in Yemen;
3. Requirements for enhancing inclusion in Yemen (Inclusive Growth).

b) Objectives :

This paper seeks to contribute to finding theoretical proposals for the proposed problem, based on the underlying crisis in Yemen (correcting the path to achieve inclusive growth in the medium term and rebuilding the capabilities of the economy and society). The focus will be on analyzing the data of the Bank and the International Monetary Fund, along with the related reports of the United Nations institutions .

1. A scene of the effects of the conflict on the economy in Yemen (generation losses):

The general scene in Yemen continues to be more deteriorating, with the worsening social situation, deteriorating living conditions, and the decline of a large segment of society below the poverty line. Despite the alleviation effort between the parties to the conflict since the beginning of 2023, there is an urgent need for more support in order to achieve stability in The political and social scene in particular... This element addresses the most important repercussions on the economy in Yemen after a decade of conflicts that destroyed the infrastructure and basics of the economy, until Yemen is classified among the most fragile economies affected by conflicts, placing it below the poverty line and an advanced center of crises.

Figure 1: Geography of Yemen area and population

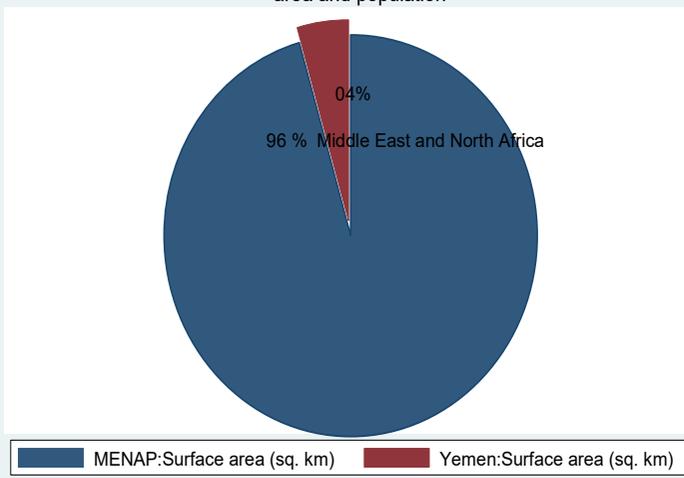
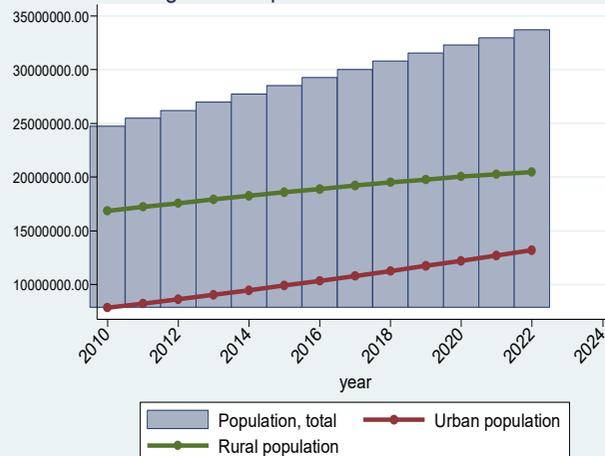


Figure 2: Population distribution



Source:

- *The World Bank Group, World Bank Open Data*, may 2023, in link [\[https://data.worldbank.org/\]](https://data.worldbank.org/);
- *IMF, 2013 ARTICLE IV CONSULTATION, IMF Country Report No.13/246, July 2013.*

IMF, Republic of Yemen: Request for a Three-Year Arrangement Under the Extended Credit Facility, Report N°. 10/300, September 2010.

1.1. Social Turmoil and livelihood decline:

Yemen occupies an area of half a million square kilometers, characterized by a diverse climate. It represents about 04% of the Middle East and North Africa region, and despite this, it is located on a strategic transit area at the Bab al-Mandab Strait, the entrance to the Red Sea, almost as important as the Egyptian Suez Canal. Yemen is a fertile environment and a very important region in the Middle East and North Africa because of the diversity of these capabilities. As the corresponding figure shows, Yemen's population is approaching 35 million people, a large segment of which (72%) represents residents of villages and largely traditional agricultural areas. On the other hand, Yemen has been living in a devastating civil war since September 2014, and the conflict has gained a regional dimension after a group of countries intervened in this conflict, making it among the most conflicts in the world (PAVLIK, 2019), and the war resulted in the deaths of an estimated About 158,000 Yemenis, including more than 15,700 civilians killed in direct attacks (ACLED, 2023), and the country has rarely witnessed an absence of violence since the beginning of the crisis in 2011, despite the United Nations securing a truce between the parties

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to the conflict in the period between April 2022.

Which partly allowed for political restructuring, and the cessation of armed conflict throughout the country led to a 90% reduction in deaths, despite the continuation of political violence during the truce period. It resulted in local tribal conflicts regaining momentum; The level of conflict deaths has continued to return to the previous status, undermining stability, at least in the short term.

1.2. Increasing poverty, malnutrition and death battles:

The conflict in Yemen has caused poverty to spread, making it the highest in the Middle East and North Africa region, and the political and food crises have deepened this situation further than that recorded in the period 2007-2009 that resulted from the financial crisis. The percentage of the population who live on less than two dollars (\$02) per day is more than 47%, compared to the MENAP region average of 17% (IMF, 2010). Despite the reforms that took place in the economy in the period that followed Yemeni unification, The only urban areas that benefited directly from it in most of it - or so it seems - are that the rural population did not benefit from the reforms or from the revenues from the growth of the hydrocarbon sector. And what is worse is that poverty is concentrated in rural areas, such that a large segment of them is below the poverty line (IMF, 2010).

Since 2014, Yemen has been classified among the highest levels of poverty in the MENAP region, and despite the reform programs that were launched in 2010 to reduce this phenomenon, especially programs with the IMF (Local and Community Development Program,..)(Ghorpade & Ammar, 2021), and at the time it recorded A relative improvement in the poverty index, the conflict exploded, which brought the index back to its starting point, and even worse, as more than 84% of Yemen's population lies below the poverty line(World Bank, 2017), and about 20% of them Below the threshold, which is higher than the average for fragile and low-income economies and higher than the average for fragile and conflict-affected countries, as shown in Box No. (01), about 30% in the latter and about (02%) as the average for the MENAP region, and the main reason is due to protracted conflicts along with policies. The applicable economic situation should, in particular:

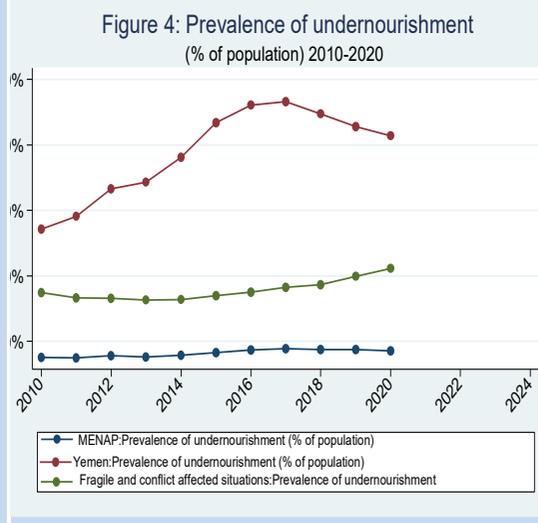
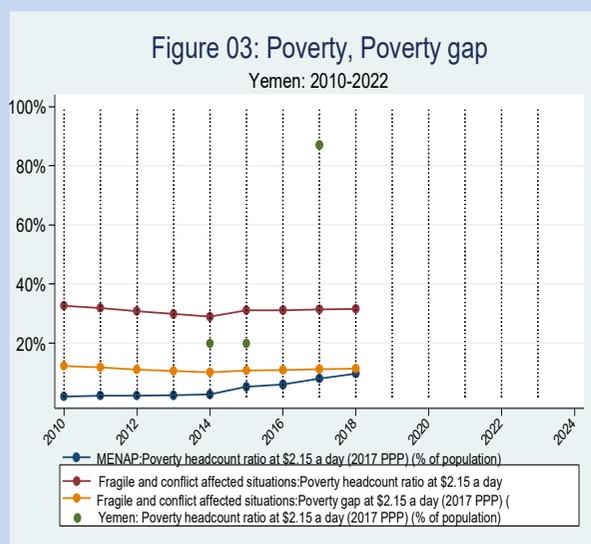
- Preparing a program to rehabilitate health levels in Yemen in light of periods of calm;
- Ensuring the optimal management of international aid, especially international bodies.

In addition, we must mention that Yemen today is a humanitarian phenomenon from the perspective of all international institutions, and requires urgent rescue plans to preserve the capabilities of the Yemeni economy, Yemen, and Yemeni society. In this context, members of the Gulf countries (GCC), as well as Arab countries, can prepare a real rescue plan that involves stopping the conflict by helping to build consensual - technocratic - governments that are widely accepted by the various sectors of society, delegated with rehabilitating society and restoring institutions. The state is a cornerstone for building a Yemeni economy based on institutions and the rule of public law.

Concerning food security, malnutrition has exceeded catastrophic levels, and the situation

immediately requires plans to save Yemen. According to the World Bank and the International Committee of the Red Cross, if the conflicts continue for a longer time, the situation will be more tragic than what can be saved through international aid. Just as Box N°(01) reflects the state of poverty and malnutrition according to 2021 statistics. It can be concluded from all of this - beyond any doubt - that Yemen is the worst situation among the economies of the (MENAP), and the worst among the fragile and conflict-affected economies and countries, the worst in Classification of low-income countries and among all Arab economies...

Box 01 : Poverty and malnutrition have worsened in Yemen



Source:

- *The World Bank Group, World Bank Open Data*, may 2023, in link <https://data.worldbank.org/>;
- *IMF, 2013 ARTICLE IV CONSULTATION, IMF Country Report No.13/246, July 2013.*
- *IMF, Republic of Yemen: Request for a Three-Year Arrangement Under the Extended Credit Facility, Report N°. 10/300, September 2010.*

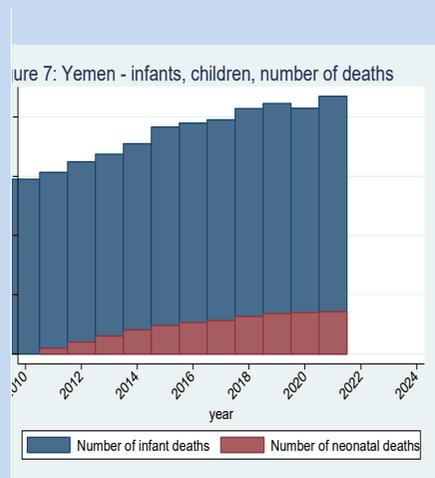
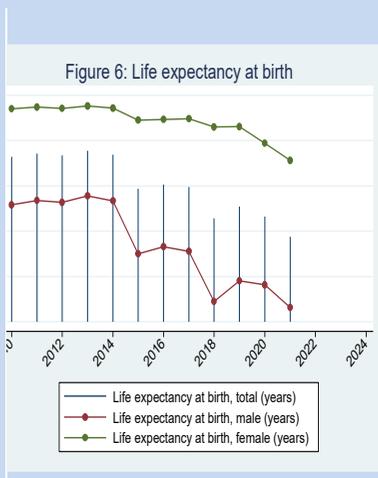
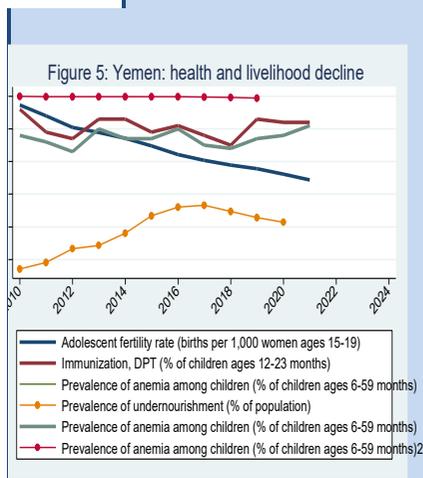
more than 40% of society suffers from chronic malnutrition, which is not worse than those levels recorded in the period 2016-2018 when it reached 46% (about half of the population) in light of the absence of a data survey for the period 2021-2022, which is likely to be Much higher according to circumstances and reports of international institutions. These rates, like poverty rates, are the highest in the Middle East and, unfortunately, the highest among all fragile

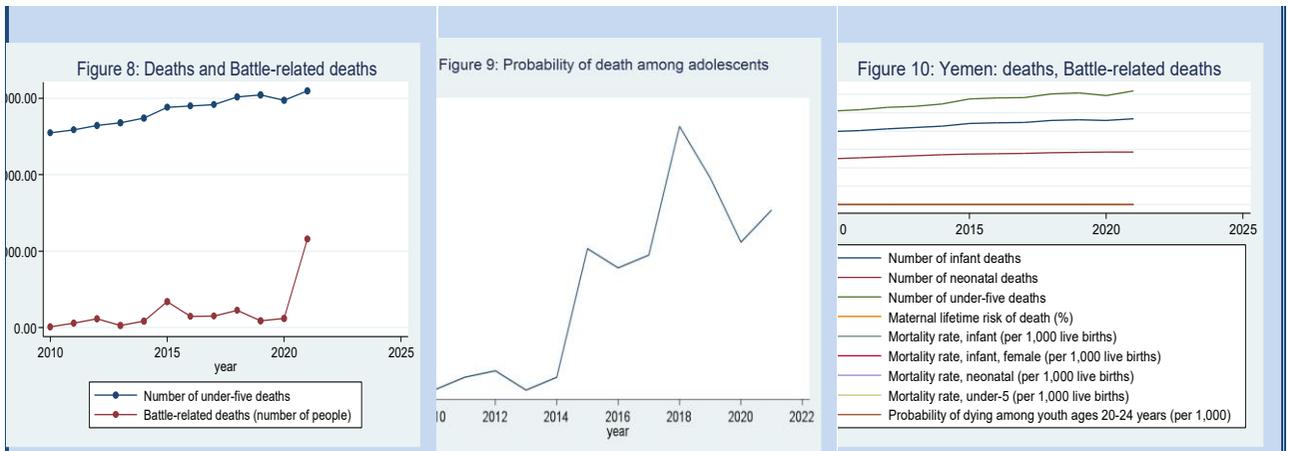
economies and countries suffering from conflict. As such, strategic rescue plans are required from heterogeneous regional and continental conglomerate in order to restore indicators to assessable levels, especially with regard to donors and international efforts, Based on all the above, it seems that Yemen, with all its sects, today realizes the importance of preserving unity and searching for ways to end the conflict. Considering that this study does not go beyond economic analysis only..., we address the importance and necessity of achieving growth. Containment by rehabilitating Yemen, especially infrastructure and bases, to ensure the smooth resumption of the economy in the short and medium term and then preparing to build and achieve inclusive growth in the medium and long term. For this next element, developments in skewed indicators in the economy, with regard to the health and education situation, and economic development in the period 2010-2022 were analyzed (Absence of data).

1.3. Deteriorating health conditions and declining level of education:

Yemen is approaching nearly a decade of crises. Conflicts and political violence have caused a mass exodus of people and have fueled the movement of Yemeni refugees in various countries, especially neighboring countries. In a parallel context, conflict and political violence in Yemen have caused the public finances to be unable to pay public sector employees for more than a whole year in general, and with the rise in the prices of basic commodities, especially food, gas and electricity prices, this led to a decline in coverage of basic necessities and was reflected in the form of diseases and epidemics, especially cholera and other diseases that were outdated decades ago to appear in Yemen again. Initial statistics indicate that 80% of Children aged (1 to 5 years) suffer from anemia, not to mention the fluctuation in vaccination levels against diseases, especially (measles, tuberculosis, paralysis).

Box 02 : Health status indicators in Yemen - selected indicators



**Source:**

- *The World Bank Group, World Bank Open Data*, may 2023, in link [<https://data.worldbank.org/>],
- *IMF, 2013 Article Iv Consultation*, *IMF Country Report No.13/246*, July 2013.
- *IMF, Republic of Yemen: Request for a Three-Year Arrangement Under the Extended Credit Facility*, Report N^o. 10/300,2010.

As for adults, more than half of Yemeni women (15 -19 years old) have a decline in fertility, in addition to about 27% of pregnant women and 35% of breastfeeding women suffering from malnutrition. Worse than this is that the maternal mortality rate is, which is among the highest rates in the world, which reflects the health status of motherhood, and the potential death rate for young people has risen steadily since the beginning of the conflict, approaching 10%(IMF, 2010).

Concerning the education situation, Yemen today faces great challenges in halting the educational system again and resuming classes, not to mention a sharp decline in the level of supervision. The lack of salaries or the continued interruption of them for several months has led to some teachers' reluctance to carry out their duties. They searched for other professions to cover their family's expenses in light of the dire economic situation, which reduced the level of framing (BBC, 2015).

On the other hand, the situation of internal displacement increases the problems of ensuring the provision of education services to a wide segment of children. In many cases, displaced children do not have the required documents or are unable to provide the minimum requirements, especially clothing and school tools.

Figure 11: yemen : School, educational situation 2010-2016

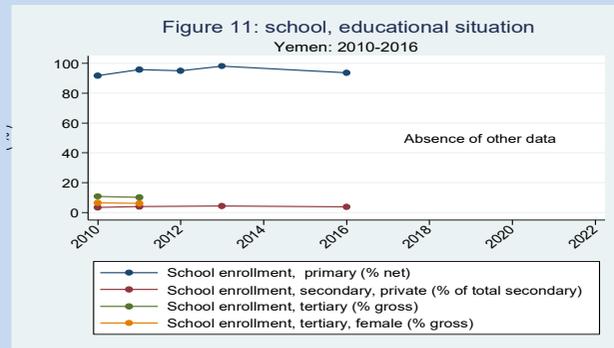
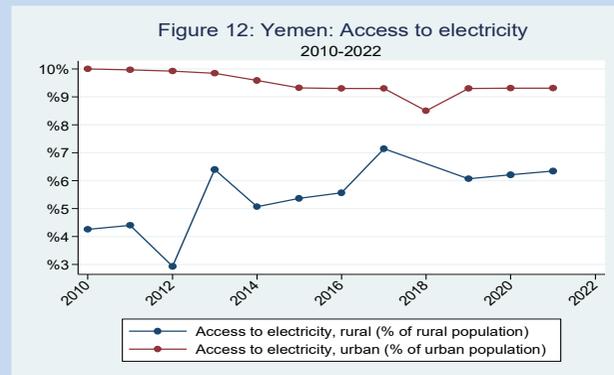


Figure 12 : yemen : Access to electricity



Source: Same previous references.

This is without detailing the extent to which the already dilapidated public schools are able and appropriate to accommodate them. In this regard, we note that schools should never be targeted, as both sides of the conflict are involved in this matter, which is a major cause of the deterioration of education. It is also a blatant act and against all human norms, and it is not possible to claim as a pretext that one party or another is using it as a camp or as a cover for war... thus ; in order to stop education and resume it again, the situation requires:

- Preparing a plan to establish classrooms on a large scale, especially in rural areas.
- Rehabilitate schools appropriately and provide proper education, especially for children in the primary grades;

- Social and psychological support for children who have lost their parents (victims of conflict);
- Providing sufficient guarantees and incentives for teachers and employees of this sector in order to commit to performing their duties away from any economic and security problems;
- Preparing a clear strategy to advance the education sector at all levels in the medium and long term.

The rehabilitation of schools and hospitals must receive increased attention to ensure real growth in these two sectors, as major institutions still suffer from fluctuations in the distribution of water and electricity, especially hospitals, and this happens in cities, not to mention villages and the countryside. In this regard, the “Yemen Emergency Electricity Project,” which partners with

local microfinance institutions, can exploit high-quality, small-scale solar energy for families, hospitals, schools, and drinking water wells in rural and semi-urban areas. Therefore, it is important to renew this The project will enable it to continue its development programs (World Bank, 2023).

1.4. Living Turmoil - Refugees and Development Aid:

Development in Yemen is still very deteriorating as the conflict enters its ninth year and the economic contraction continues, and there is still uncertainty about reaching solutions between the parties to end the conflict, this latter which has squandered a procession of important reforms and gains achieved since 1995 when development projects were launched.

Based on this situation, reliance on humanitarian aid has increased increasingly, due to the worsening economic difficulties, and with the cessation of many governmental and international aid programs during the period of conflicts, the importance of international programs has greatly increased, especially those organized by international agencies, international and national non-governmental organizations, as well as Local and community organizations, while aid was directed to an estimated 26% of the Yemeni population (a quarter), only a segment including 2.4% benefited from it. This heavy reliance on humanitarian aid is driven by the worsening vulnerabilities, the impact of conflicts, and the succession of shocks, and in light of the decline in government aid, it has major repercussions. while investment-focused remittances decrease due to the uncertainty resulting from the conflict (Ghorpade & Ammar, 2021) .

1.4.1. Refugees and increasing displacement:

There are more than fifty million internally displaced people in fragile and overburdened economies, and these numbers are still rising steadily as a result of the outbreak of crises in many regions of the world. Unfortunately, the last decade has seen an increase in cases, and in Yemen in particular, the levels of displacement are very large, as it is estimated that about three million (03) Yemenis have been displaced, according to UNHCR* and TFPM**, since the conflict intensified in 2015-2016, which means that about 11% of the total population in Yemen (Ghorpade & Ammar, 2021) .

Box 03 : Refugee - growth and displacement compared to similar economies

(*)– United Nations Human Rights Council. (**)- Working Group on Indigenous Populations

Figure 13: Refugee population, displaced persons

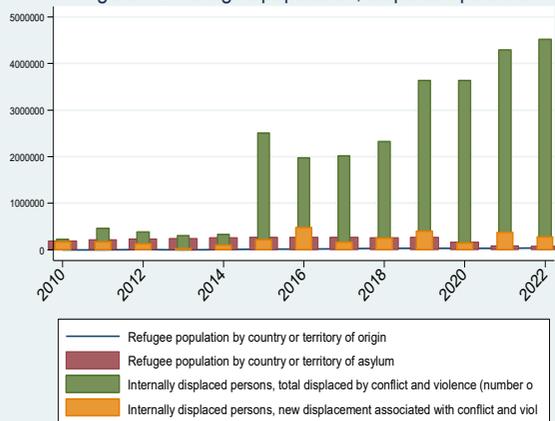
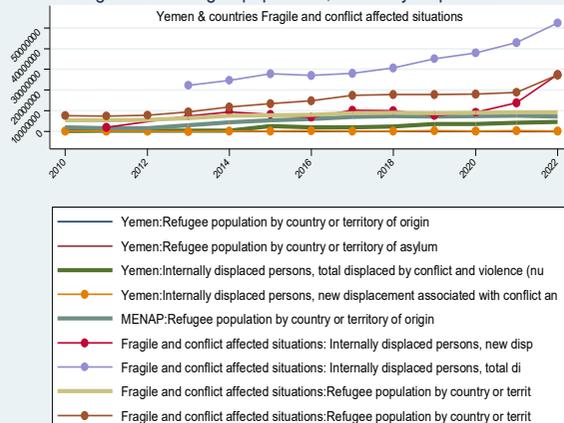


Figure 14: Refugee population, Internally displaced

**Source:**

- *The World Bank Group, World Bank Open Data*, may 2023, in link [\[https://data.worldbank.org/\]](https://data.worldbank.org/);
- *IMF, 2013 Article Iv Consultation*, *IMF Country Report No.13/246*, July 2013.
- *IMF, Republic of Yemen: Request for a Three-Year Arrangement Under the Extended Credit Facility*, Report N°. 10/300,2010.

Framework (03) displays the movement of displacement due to conflict or violence, which is mainly based in the Middle East and sub-Saharan Africa, as well as the Caucasus region. Between the years 2013 and 2022, the number of displaced people doubled from about 22 million to (50 million) and more, no less than (27 million) displaced persons were recorded in the year 2022 alone, as it was. Displacement in fragile and conflict-affected economies is equivalent to 10 (million) displaced persons annually.

On a parallel level, the year 2014 recorded about 334,000 displaced people due to the decline in the standard of living and the beginning of the turmoil. With the intensification of the conflict in 2015, more than 250,000 Yemenis were displaced, and double this number reached by the end of 2022, which is half of the displaced in relation to the fragile and conflict-ridden economies alone. This indicator indicates how bad the humanitarian situation and standard of living, and the conditions are still more catastrophic. We point out that the economies of the MENAP represent most of the cases of displacement in the world.

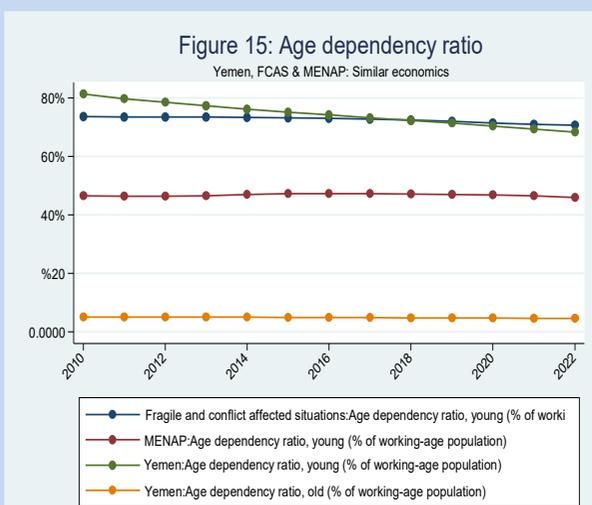
1.4.2. Depletion of development aid:

The emergency crisis response project funded by the World Bank since 2016 achieved important results during its implementation period, which lasted seven (07) years. It created jobs and

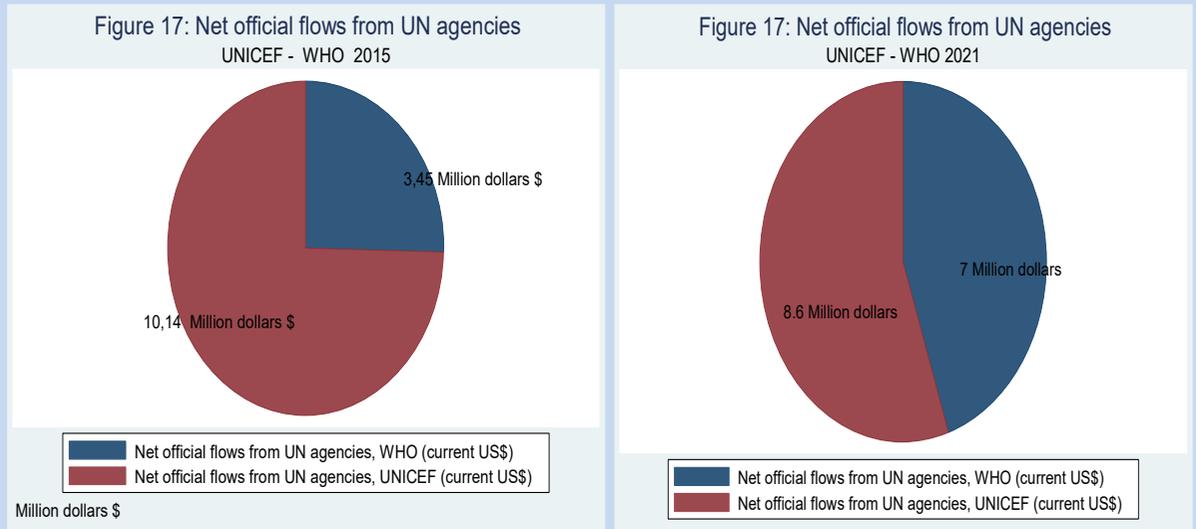
important financing mechanisms, such as direct and indirect support (World Bank, 2023), in an effort to return to favorable conditions for the resumption of economic activities. Relevant international institutions seek to support Yemen, although with aid that is often insufficient, due to its limitations or lack of accurate access to its recipients, such as the International Development Association (IDA), which directed aid to the poorest and most needy families, which helped them relatively to Overcoming the impact of crises, as the figure below reflects, is through supporting key areas.

In the same context, international humanitarian aid has covered many sectors, albeit relatively. As for the Public Works Project, which implements active labor market programmes, the Agricultural and Fisheries Production Encouragement Fund, the Fund for the Care and Rehabilitation of the Disabled, as well as the Martyrs and Wounded Fund, in addition to informal transfers, they are an important source of aid. Families, about 2.40% of the population benefited from it by the end of 2014(Ghorpade & Ammar, 2021). As for development aid from international institutions, the Emergency Cash Transfers (UECT)* program constitutes the most important source of development support in Yemen. This program is provided by the World Bank and UNICEF. At the beginning of 2021, the mix of aid directed to Yemen had changed fundamentally. The International Monetary Fund programs had completely stopped, along with many national reform programs, especially related to the public sector or vulnerable families, which increased the fragility of the situation.

Box 03 : Net official development assistance



(*)-UNICEF's Emergency Cash Transfers <https://www.unicef.org/yemen/reports/yemen-emergency-crisis-response-project> . 17/08/2023.



Source:

- *The World Bank Group, World Bank Open Data , may 2023, in link <https://data.worldbank.org/>;*
- *IMF, 2013 Article Iv Consultation , IMF Country Report No.13/246, July 2013.*
- *IMF, Republic of Yemen: Request for a Three-Year Arrangement Under the Extended Credit Facility, Report N°. 10/300,2010.*

Although the armed conflict is still the main cause of the humanitarian crisis, sitting at the dialogue table and agreeing to end the conflict is a basic requirement for ending the humanitarian crisis in Yemen, and international aid and donor support can only alleviate the effects of the humanitarian crisis in a tangible and short-term manner. In particular, it should:

- End the conflict and restore stability. In this regard, neighboring economies, along with regional institutions, can work to prepare a climate for ending this conflict, work to end any foreign interference in Yemen, and force the parties to accept compromise solutions ;
- Activate for the smooth resumption of the economy as the keys to growth, in the context of direct economic measures. In this regard, World Bank studies indicate that growth is considered the main driver of poverty reduction through the direct impact of employment and the provision of job opportunities ;
- Reforme the education and health sectors because they are the basic building blocks for poverty reduction, and given that improvements in social development, as well as the development of social inclusion and sustainable livelihoods, equality among

society, and increased voice and participation, also contribute to poverty reduction as indirect channels;

1. Economic developments and inclusive growth in Yemen:

In the midst of conflict and social fragility, especially unemployment, poverty and the rise in refugee cases, as well as increasing cases of uncertainty regarding the improvement of conditions, and with the escalation and intensification of regional and global changes at the economic level, the negative repercussions on Yemen and on comparable economies increased. This situation reduced the possibility of achieving inclusive growth. The medium and short term in these economies. In addition, the previous elements touched on the weak points in economy, and the basic elements that must be reviewed prominently within the framework of the rehabilitation of the new Yemen. Therefore, this element attempts to characterize the general economic structure in order to prepare the guiding framework that directs the course of appropriate economic policies to achieve inclusive growth.

1.1. Economic growth:

At the beginning of the third trimester of 2010, a package of economic reforms was resumed to stimulate growth and improve living standards, especially in the sectors of health, education and organization of institutions. The economy achieved growth of 10%. Following a contraction in 2011, the economic situation in 2012 was relatively stable despite the fragile conditions of institutions. This relative growth is the result of a relative improvement in the production sector despite the surrounding regulatory obstacles.

Box 03: Macroeconomic indicators: GDP, inflation, unemployment and skills erosion

Figure 19: Yemen: Broad money (% YAER)

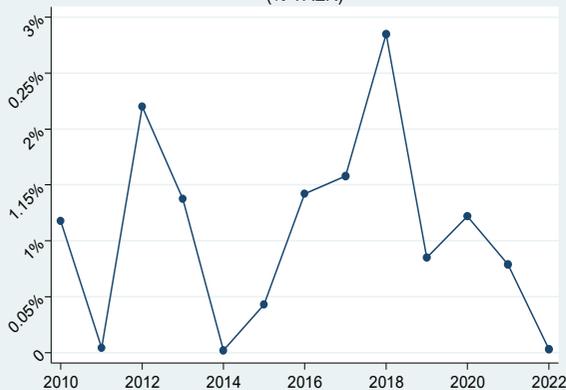


Figure 18: GDP growth

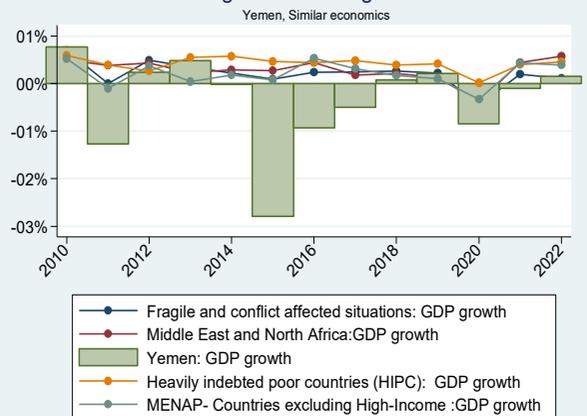


Figure 20 :Inflation, consumer prices
Yemen, MENAP & Similar economies

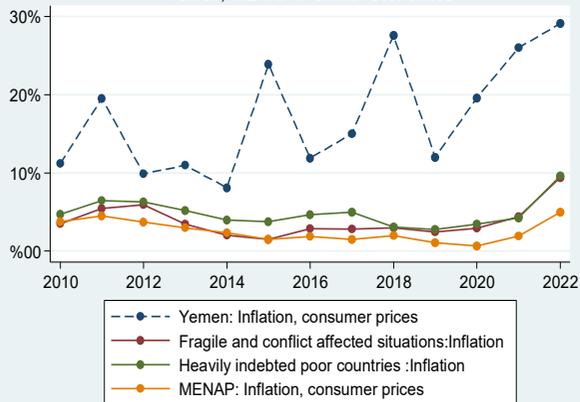
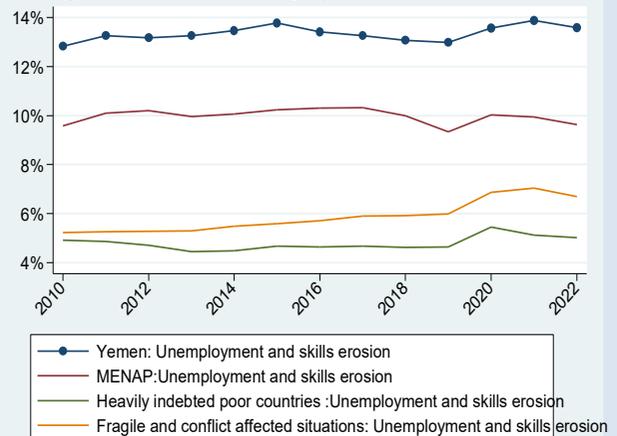


Figure 21: Yemen: Unemployment and skills erosion



Source:

- *The World Bank Group, World Bank Open Data , may 2023, in link [<https://data.worldbank.org/>];*
- *IMF, 2013 Article Iv Consultation , IMF Country Report No.13/246, July 2013.*
- *IMF, Republic of Yemen: Request for a Three-Year Arrangement Under the Extended Credit Facility, Report No. 10/300, September 2010.*

Figure N° (18) describes the level of economic growth in Yemen and in comparable economies, in a similar way it reflects growth compared to the economies of the Middle East and North Africa is the extent of weakness compared to them, and it does not differ for fragile economies burdened by conflict and in a parallel manner for poor economies burdened with debt, and this is what was indicated by the previous analysis about Yemen's fragile and weak situation compared to the rest of the world's countries.

The period 2010-2012 was characterized by a (new mediocre)* economic performance. This comes after the resumption of economic reforms supported by International Monetary Fund programs, and is mainly due to the control tools and channels for transmitting monetary and financial policies that are still limited, which requires more sectoral reforms from In order to reach economic development goals. Looking at the period 2019-2020, the COVID-19 pandemic resulted in a further deepening of the economic situation, after years of conflict and the slowdown of the economy, especially in terms of financing and the depletion of the exchange reserve due to the decline in foreign support, as well as the sharp decline in remittances from workers abroad and the decline in Hydro-Carber revenues, which led to To increase pressure on the budget and

(*)- More explanation.: <https://www.imf.org/en/News/Articles/2015/09/28/04/53/sonew100214a>
12/08/2023.

have repercussions on many sectoral indicators, especially health and education.

In a different context, in the period 2020-2022, the level of pressure on the economy and growth partially decreased, although it is still slowing down, but it is within a positive field in a certain way, which provides other opportunities to push it back again if it is sterilized by donors and development aid in particular. The most critical matter is that the impact of the pandemic on the economic slowdown was partial in all the poor, heavily indebted economies - and this comes despite the fact that these economies slowed down in the first place - unlike the rest of the economies of the world, including emerging and developed markets. In a similar way, the temporary decline of the conflict and the truce between the parties to the conflict had the effect of partially reducing the pressure on the economy and growth, as we mentioned above, and despite the rounds of conflict recorded in early 2023 and the return of the truce again, a state of great uncertainty is still recorded regarding achieving growth that allows it to be a building block for the resumption of the economy again. In this way, macroeconomic policies should be reformulated within a coherent framework over the medium and long term in line with the current situation, therefore, efforts will be made to stimulating growth is crucial (IMF, 2005).

1.2. Fiscal policies, the internal and external balance of the economy:

Economic policy makers in Yemen should have realized the extent of the risks surrounding the economy under the growing risks of uncertainty, and with the increase or conflict in geo-political shocks, they should also know the extent to which the effects of geo-political shocks are transmitted to institutions and the consequences of this, This element describes the developments in the internal balance of the economy, expressed in public finances, and we attach it to the position of public debt, or what is called fiscal space, along with the external balance through the external balance, the balance of payments, as well as the exchange rate.

1.2.1. The internal balance of the economy and the development of public debt:

Public finance records a structural deficit exceeding 700 billion riyals, although the deficit will decline in 2022 due to the significant rise in hydrocarbon prices in global energy markets, it still has a negative impact on the dynamism of the financial situation, especially since internal debt is steadily rising,(Table1) which describes the development of the internal public debt, the expenses of support, subsidies, and benefits have grown significantly, which was reflected in the total government expenditures. We point out that oil revenues constitute the basic aspect of the state's revenues, and with many cases that led to the waste of oil production, this has had a significant impact. A significant negative impact on revenues, not to mention the push and pull between the conflicting parties in the management of this resource.

<i>Table N° (01): Public Finance 2010-2022 Unit: One billion Yemeni riyals</i>								
	<i>Total Revenues</i>				<i>Total expenditures</i>			<i>Public Finance Credit</i>
	<i>Fuel</i>	<i>Non Fuel</i>	<i>Dona</i>	<i>Total</i>	<i>Curre</i>	<i>Capita</i>	<i>Total</i>	

		Taxable	Untaxable	tion		nt	l		
2016	114	340	217	2	672	1393	36	1429	-756
2017	193	156	0	0	349	831	8	840	-491
2018	341.96	354.32	154	24	743	1556	96	1652	-909
2019	459	338	78	48	923	1535	90	1625	-702
2020	331	416	160	8	915	1547	100	1647	-732
2021	397.5	580.6	118.8	0	1096.9	1599	29.7	1628.7	-531.8
2022	1108.2	789.5	16.8	0	19140.5	2610	51.1	2661.1	-746.6
2023	Unavailable	Unavailable	Unavailable	/	/	/	/	/	

Source:

- *Bank of Yemen, Publication of Economic and Monetary Developments, 2021, 2022, 2023.*
- *Central Bank of Yemen, Annual Report, December 2022. 2021.*

For this reason, it is extremely important to govern revenues, especially non-oil collection methods, and the deteriorating effects of household savings and small and medium enterprises must be taken into account in light of their weak incomes. On the other hand, under the circumstances surrounding oil production, field and customs control must be activated in a way that enables monitoring of real production and source production, in order to avoid waste and smuggling operations of the basic resource of the Yemeni economy.

In a parallel context, external debt constitutes an obsession for economic policy makers in Yemen, as it leads to a decline in fiscal space, which undermines the issue of ensuring the internal balance of the economy under an accumulated deficit in public finances. It is noted that central bank financing represents the significant aspect of internal debt. We point out that the transfer of the Central Bank from the capital, Sana'a, in 2016, to city of Aden - this step - reflect the extent of the bad general conditions of the economy and the country, which puts uncertainty in the economic situation at its highest level. In the medium and short term, uncertainty in Yemen constitutes a fundamental variable according to this analysis and a threat to the risks surrounding the economy in Yemen. Accordingly, the parties to the conflict must a constructive dialogue to preserve sovereign institutions, especially the Central Bank, financial institutions and the public

treasury.

2.2.2. The external balance of the economy and the development of the exchange rate:

Similar to the general budget, the external balance and balance of payments record a deficit, which negatively affects the economy. This deficit comes as a natural result of the weakness of external exchanges outside the hydrocarbon sector, and the latter also suffers from fluctuation in its revenues, especially in Period 2019-2020. The conditions of the major economic closure in this period due to the spread of the global pandemic Covid-19 had profound effects on this situation. In this context, economic policy makers in Yemen must take corrective measures for the economic situation and restore the internal and external balance of the economy in this order. And it has Central Bank prepared a set of measures and reforms related to strengthening the exchange rate. It conducted foreign currency auctions through which it aims to enhance and provide allocations to foreign currency resources in an optimal and efficient manner, despite it being characterized by a kind of inconsistency regarding the participation of banks and financial institutions.

	<i>Current Account</i>					<i>Balance of Payment</i>
	<i>Import</i>	<i>Export</i>			<i>Current Account</i>	
		<i>Fuel</i>	<i>Non Fuel</i>	<i>Total</i>		
2016	7369.3	248	798.8	1046.8	-887.6	-545.4
2017	7826	599.3	407.1	1006.4	-370	-158.6
2018	8844	914.5	394	1308.5	-482.1	659.8
2019	10255.6	1101	460	1561.8	-811.7	-890.7
2020	8403.5	710.5	467.7	1178.2	-644.3	-465.1
2021	9004	993.8	468	1461.8	3160	570
2022	12461	990.3	505	1495	3344	-758

Source: The same previous sources.

2. Requirements for enhancing inclusion in Yemen (Inclusive Growth):

The rapid economic developments, especially in emerging market economies and high-income

economies, have proven that the evaluation of economic performance is no longer limited to economic growth only, but has extended to the analysis of income equality and the content of contribution and participation in it, and the current conditions in those economies indicate, not to mention the MENAP or fragile economies burdened by conflicts, to growing inequality and its harmful and devastating economic and societal effects (UNCTAD, 2020).

In addition, although economic growth is still considered the most powerful tool for providing solutions to reduce poverty, economic growth rates can have different impacts on poverty, employment and development under the intensification of changes, especially conflicts and tensions, both internal and regional. Therefore, it depends on the extent to which Inclusive growth in this concept aims to ensure equal opportunities and freedom to participate in activities that generate economic growth and benefit from them for all segments of society at a single and close level and scope. Therefore, economic policy makers are faced with the challenge of ensuring the promotion of growth and procedures that enhance equal opportunities to participate in the economy and benefit from it for all actors in the economy. Especially families and families in the countryside, and on a scale that includes the segment of society as a whole. This is because identifying a single indicator of inclusive growth that can be measured quantitatively is not available, because inclusive growth is a multi-faceted phenomenon. This element attempts to define the concept of inclusion in Yemen for the purpose of answering the problem raised.

2.1. Yemen, inclusion and the concept of inclusive growth:

Rapid and sustainable poverty reduction requires comprehensive growth that allows individuals to contribute to creating and benefiting from income. Likewise, for this income to be sustainable in the medium and long term, it should be broad-based and based on the growth of various sectors, ensuring equal opportunities and protection in transitions. The market and employment also ensures a direct link between the macro and micro determinants of growth in those sectors. The micro dimension embodies the importance of structural transformation for economic diversification and competition. This is the general definition of inclusive growth (Ianchovichina & Lundstrom, 2009).

Since inclusive growth is more than just broad-based growth while economic growth (increasing economic output or income) is a well-defined but narrow concept, inclusive growth focuses on a subset of the episodes that make up growth, and it is necessary to define what distinguishes the cycles. For growth that qualifies as inclusive, there are two possible options, one of which focuses on the process, meaning that actual growth involves many people who participated in this growth (it depends on input from a large number of individuals). In this context, inclusive growth is somewhat related to broad growth. Scale or labor intensive. However, the word “inclusive” carries with it the concept of non-discrimination, and thus inclusive growth can be described as broad-based growth that includes non-discriminatory participation (Klasen, 2017).

The second concept focuses on the results of the growth process (i.e., inclusive growth benefits many individuals). This option is closely linked to the concept of pro-poor growth and increasing the income of the poor. Its relative definition also refers to growth that leads to disproportionate increases in income among the poor.

2.2. The statistical estimate (impact) :

in this study, inclusive growth will be expressed according to the definition provided by (ADB), so that the dependent variable includes : (Poverty index; Gini index; growth)

A set of economic indicators and social protection indicators are adopted as independent variables, and in this context we will rely on “VAR” models, one of the most important estimates of dynamic data models. The latter is the essence of our choice of the approved model, in addition to other reasons such as the problem of the effects and temporal changes of variables, and the econometric analysis conducted according to data. The World Bank and data derived from the report of the Central Bank of Yemen, in the period 1990-2022.

<i>Table No. (03): Variables adopted in the standard (statistical) estimation</i>			
- <i>Economic growth, translated into per capita income, (GDP_Per);</i>			
- <i>Poverty index, poverty rates and people below the poverty line of \$2.5 a day. “Poverty index”;</i>			
- <i>Gini coefficient (fairness and equality), translated as “Gini coefficient”.</i>			
<i>Social Protection</i>	- <i>Political_Stability_Absenc Violence_Terrorism</i>	<i>economic decline</i>	- <i>Unemployment</i>
	- <i>Rule_Law</i>		- <i>Exchange</i>
	- <i>Prevalence_undernourishment</i>		- <i>External_debt</i>
	- <i>Br_deaths</i>		- <i>Inflation</i>
	- <i>refugees</i>		- <i>Reserves</i>

2.2.1. Model description:

We present the results of an analysis of the relationship between the dependent variable “Inclusive Growth” and the independent variables that reflect the economic decline and the repercussions of the conflict, which are summarized in a set of indicators (economic, social protection) .

a. **Stability of time series:** The time series that describe macroeconomic variables are likely to be characterized by a state of instability from a statistical standpoint due to their being interspersed with unit root Therefore, it is necessary to test that they are free of unit root before treating them and knowing their degree of integration. For this reason, we rely in this step on the following tests: (D-Fuller, P-Perron Test).

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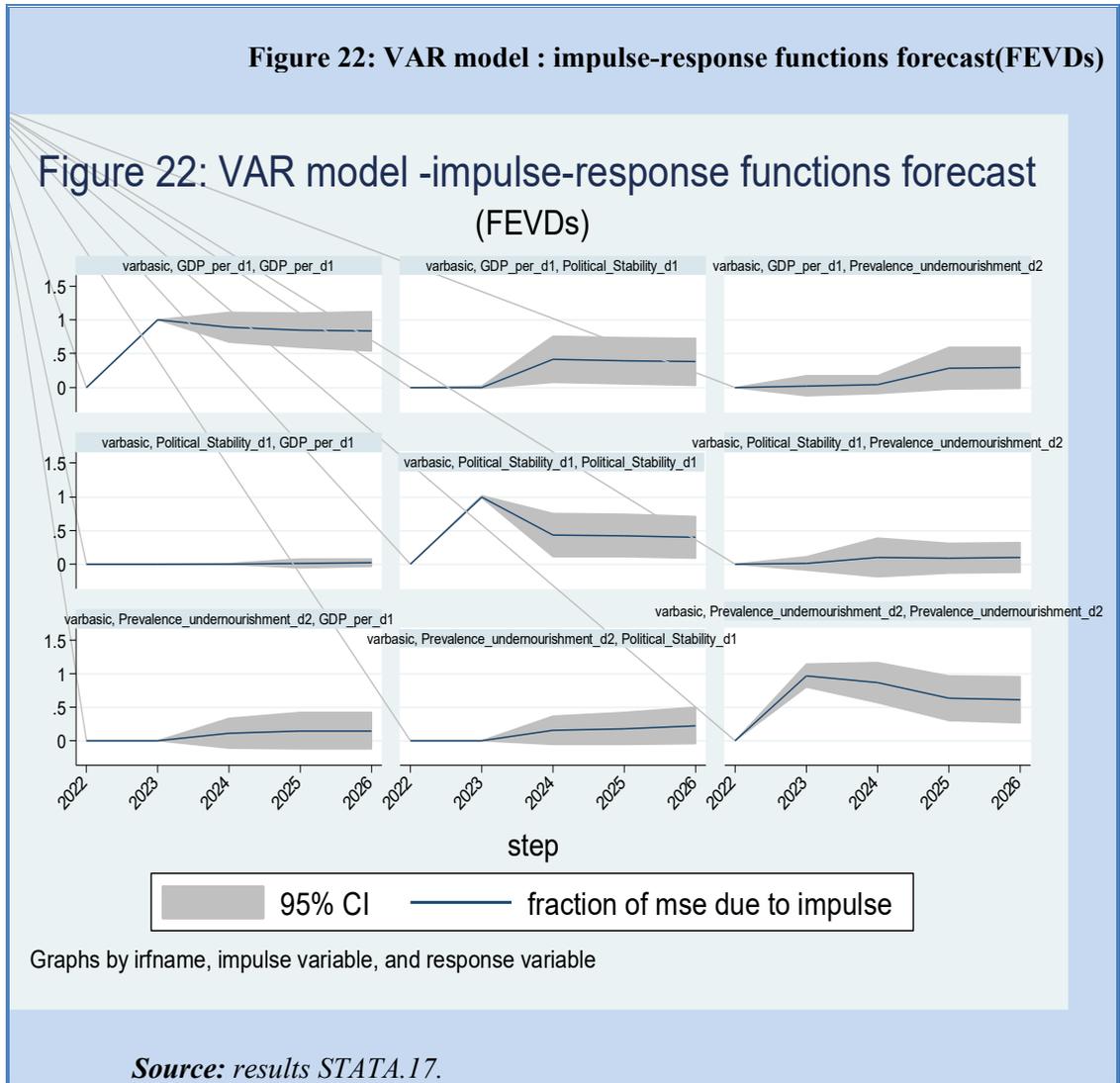
It has been found that the time series are stable when making the “1” differences, Also, one of these chains rests at the second difference, “Level II,” meaning that it is not integrated to the same degree. We also point out the exclusion of the two variables (poverty index and Gini coefficient) due to their lack of stability. The basis for this is that the time series is not available over the length of the study due to the lack of data even for the World Bank or official Yemeni authorities.

b. Determine the number of slowdowns and delays: step to include the model that represents the autoregressive vector “VAR” to determine the number of lag periods in the path of the model, based on “Akaike’s” statistics and the “Schwarz” test, where indicated that the optimal degree of delay is (01).

2.2.2. Estimation results:

The variables that represent the study were included: “Inclusive Growth” as measured by the previous indicators, with the analysis replacing (the prevalence of malnutrition) as an alternative to the (poverty) and the (Gini)coefficient, which measures the skewness of the income distribution, This is due to the statistical reasons mentioned above, and with regard to With the indicator of economic decline and the repercussions of the conflict, “Social Protection & economic decline”, the exchange rate variables were excluded due to the statistical problems they caused to the model, and it is likely that the degree of standard deviation of the data along the time series is the cause of this problem, the estimation results can be included through the following immediate response function (IRF):

Figure 22: VAR model : impulse-response functions forecast(FEVDs)



Autoregressive “VAR” models allow for the analysis of shocks, and this is done by analyzing the effects of those shocks based on the changes occurring in the rest of the variables and according to the estimation of the impulse-response function (StataCorp, 2021), prepared over a horizon of four (04) years, as is It is shown in Figure (22), where it represents the response to a single impulse represented in each row, while it represents an individual response in each column to the impact of sudden shocks to a particular economic phenomenon on the rest of the economic indicators. Through this, it is clear that the analysis and interpretation of the function requires that the model be free of immediate correlations. In order to ensure the absence of the effect and the isolation of the shock, if these conditions are not met, it is likely that a shock will occur that affects the rest of the variables in the model in the same period. This contradicts the methodology of response functions, which is based on separate and independent simulations between variables, meaning that it is not theoretically possible to be exposed to several economic shocks in the same

Based on the results of the conducted estimation, the diagnostic tests indicated that there are some statistical problems that would make the estimation results biased and that the model is, in general, unacceptable for statistical interpretation, as the diagnostic tests (Appendices) indicate that the data do not follow a normal distribution and that the residuals are not stable. As the single circle indicates. Therefore, the null hypothesis (H_0) is accepted. As such, the statistical model based on dynamic analysis will not provide an answer to the problem raised in this element, and we will limit ourselves to analyzing causality tests in order to know the mutual effects of changes and shocks, and within the analysis of dynamic models such as (VAR) we rely on Granger causality.

2.2.3. Estimating causality for the VAR estimator model:

Returning to Appendix N^o(01), it is noted that there is no causal relationship between inclusive growth (individual income growth) with the various variables, which reflects that individual income is unlikely to be directly affected and affected by the variables. As for the variable (malnutrition), it is confirmed that there is a relevant causal relationship. There are two trends according to “Granger Causality” which means that it affects all variables in a significant way, which confirms the depth of the food crisis in Yemen, exactly as the previous analysis indicated. Malnutrition includes the segment of society that falls below the minimum level of food consumption, and food energy requirements are constantly met. Granger causality has indicated that malnutrition in Yemen causes a significant decline in individuals’ income by about 228 standard units, in the absence of the reverse direction of causality, although This reflects an estimate of the channels of income transmission for individuals and not necessarily the absence of causality as we believe, especially since a large segment of society today is below the poverty line and international aid is likely to have more effective effects despite its fluctuations. The effect is within the range of 400 estimated standard units. On the other hand, Granger causality indicated a number of results, the most important of which are:

- Malnutrition in Yemen is likely to cause a significant decline in income for individuals, which narrows the possibilities of achieving acceptable levels of income inclusion in this regard, and which does not guarantee fair distribution of income either.
- Malnutrition is likely to exacerbate the mass displacement of individuals, which has more negative repercussions on society. Moreover, in the absence of the law or a decline in its application (Rule_Law), it reflects the extent of the decline in confidence in the rules of society and their commitment to it, especially the quality of contract enforcement and human rights. Property, police, and courts, as well as the possibility of crime and continued violence, which further worsens the situation in this regard;
- It is likely that the effects of prolonged conflict have profound effects on malnutrition, as indicated by the results obtained in the previous analysis. In addition, Granger causality confirms this result and confirms that malnutrition has no effect on the continuation of the conflict. This result confirms that the conflict in this case will not It will only stop with the concerted national efforts to follow reform plans that stem from the depth of Yemeni society’s

sense of the consequences that Yemen has reached, so that Yemen does not reach the state of division that some countries have reached, including the situation in the Arab countries.

- The Granger causality test confirms that the economic decline in Yemen, as well as the continuation of conflict and uncertainty, directly and significantly affect and cause the continuation of malnutrition, which in many cases has mobilized the international community, including international and regional organizations such as the United Nations and its various agencies (the High Commissioner for Refugees, United Nations Office for the Coordination of Humanitarian Affairs (OCHA)) in addition to many other international and regional institutions, including the World Bank.

2.3. Strategy for achieving inclusion:

The main problem for this element was whether it is possible to derive a strategy to achieve inclusive growth in Yemen according to the circumstances and variables adopted in this paper (study). It was demonstrated through economic analysis that the extension of statistical analysis led to a set of results that could be a basic building block for achieving this endeavour. According to the perspective of this paper, the continuation of the conflict and political instability has a profound impact on Yemen and the Yemeni economy. Therefore, and based on all of the above, this paper has come up with a set of proposals that would put the economy back on its correct path only as a first step, to achieve inclusion and that can be explained in the next the figure:

Figure N°(23): Strategy To Contain Economic Decline And Livelihood Decline



Source: Prepared by the researcher, based on the forementioned.

Restoring the correct economic path and containing the severe decline of the economy in Yemen on the one hand, and restoring societal stability in Yemen on the other hand, depends on a set of conditions according to the findings of this paper, so that it is necessary in particular:

- The state of conflict must be ended, violence and arbitrary rule of law must be stopped, and national reconciliation must be promoted, as a first step to creating the environment for the desired reforms in various economic and social sectors, especially health and education.
- Targeted poverty alleviation programs and special assistance programs for victims of protracted conflict should be implemented.

A broad structural reform program should be undertaken in the economic sectors, especially (the financial sector and the agriculture, irrigation and fishing sectors), and the governance of the management of the oil sector and the improvement of institutional rules is an increasing requirement to provide an important financial space to continue these reforms alongside international support and aid.

3. Conclusion :

The general scene in Yemen continues to be in a more deteriorating situation, with the

worsening social situation, deteriorating living conditions, and the decline of a large segment of society below the poverty line. Despite the alleviation effort between the parties to the conflict since the beginning of 2023, the economic scene is still fractured and portends more severe situations in the medium term. The long conflict had profound repercussions on the economy, which is suffering from a severe decline due to the accumulation of shocks, And worse, sthe severe exacerbation in the midst of the conflict of the great social fragility that has led to Yemen and Yemeni society, which has increased the levels of unemployment, poverty, malnutrition, the rise in refugees cases, and cases of uncertainty regarding the improvement of conditions until Yemen is classified among the most fragile economies affected by conflicts and is placed below the poverty line. And an advanced crisis center, thus reducing the possibility of correcting the course of the economy and achieving inclusive growth in the medium or even short term. It seems that this situation will last for quite some time, according to statistics from international and even national institutions. These accumulations had a severe impact on the economy as an inevitable result, which eliminated the issue of restoring the path of economic growth in the short term, not to mention achieving its inclusion.

Accordingly, and with the current state of the economic , there arises an urgent need to contain what can be contained of the long-term effects of this scene, especially since humanitarian efforts alone may not be able to confront these effects and it may not be possible to be satisfied with traditional economic policies “to correct and correct the path of growth and development.” For this reason, the goal of this paper was centered around inclusive growth and not (growth as a specific only), with the aim of covering the most important capabilities of Yemen, including health, education, and short-term planning (suggested strategies) in order to straighten the path towards achieving recovery and inclusive growth after the end of the conflict, starting from An evaluation of a number of economic and social indicators in Yemen led to results, the most important of which are:A wide segment of Yemeni society is below the poverty line, and the population’s rents are below the threshold, which is higher than the average for fragile and low-income economies and higher than the average for fragile and conflict-affected countries, and the main reason is due to protracted conflicts combined with fragile policies.

- The situation of poverty, malnutrition, and health crises in Yemen is the worst situation among the economies of the Middle East and MENAP, and the worst among the fragile and conflict-affected economies and countries, the worst in the classification of low-income countries and among all Arab economies.
- Despite the reforms that took place in the economy in the period following Yemeni unification, the only urban areas that benefited directly from it in most of it, as the rural population did not benefit from the reforms. What is worse is that poverty is concentrated in rural areas, such that a large segment of them is below the poverty line.
- The importance of international programs has increased significantly, especially those organized by international agencies, international non-governmental organizations, as well

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as local and community organizations. While aid was directed to approximately 26% of the population (a quarter), only a segment including 2.4% benefited from it.

- On the economic level, with the intensification of regional and global changes, the negative repercussions on Yemen and on comparable economies increased. This situation reduced the prospects for achieving inclusive growth in the near term.
- The fiscal space is in a position that does not allow for the resumption of fundamental reforms in the short term, and the automatic adjustment tools will have no effect in directing reform paths if they are pursued in the short term.

Therefore, since the problem of this paper is in the requirements that would correct the path to achieving inclusive growth in the medium term, the continuation of the current crisis situation, especially with regard to the economy, will have deeper repercussions whose cost will increase with the passage of time, and if these conditions continue, the economy will be greatly affected. Deeper, and it will be at its lowest level, which is the point at which the issue of re-correcting its course for a smooth resumption will become difficult to achieve. Based on these results, it is necessary to rehabilitate sovereign institutions and economic policy enforcement institutions such as the Central Bank, continue financial adjustment measures and protect the poor in an urgent manner, and work to rebuild financial space in the short term to correct the course of the economy and contain the repercussions of the crisis and the severe decline of the economy, as an answer to the problem at hand, and that continuing Measures to reduce malnutrition and poverty and enhance health security are an increasing requirement, and even a necessary condition for those goals, exactly as indicated by the study's starting hypothesis. It also gave a number of proposals, the most important of which are:

It is crucial that resolving the conflict and taking basic steps to coordinate policies across the country, including monetary and fiscal policy, would help end the economic and humanitarian crisis. Furthermore, rebuilding institutional and policy enforcement capacities will support stimulating more financial aid and economic growth;

- Preparing real rescue plans that involve stopping the conflict by helping to build consensual - technocratic - governments that are widely accepted by the various sectors of society, tasked with rehabilitating society and restoring state institutions as a cornerstone for building an economy based on institutions and the rule of public law;
- The education and health sectors should be reformed because they are the basic building blocks for poverty reduction, and given that improvements in social development, as well as the development of social inclusion and sustainable living paths, equality among society, and increased voice and participation, also contribute to poverty reduction as indirect channels;
- Macroeconomic policies should be reformulated in accordance with the current situation, and given that the renewed and accelerating financial and external imbalances place macroeconomic stability in a shorter term than what can be managed by traditional and weak methods in Yemen - conservatively -, therefore, efforts to stimulate growth will be extremely important and at significant costs;

- Donor countries should strengthen their bilateral aid if they give a full guarantee of commitment to reform, assistance without this being reflected in what is called “exhaustion donor“.

4. Data Availability Statement

The study data used in this paper are available on the World Bank website: <https://data.worldbank.org/> and may be shared without explicit permission from the data provider. Therefore, the basic data of this article can be shared with the author's permission.

5. a conflict of interest statement in manuscript :

On behalf of all authors, the corresponding author states that there is no conflict of interest. There isn't any conflict or has a financial or personal relationship with a third party whose interests could be positively or negatively influenced by the article's content.

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