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State Institutions During Conflict: Yemen Customs Authority

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Cover Photo: Container crane at the port of Houdeidah. Credit:Langeveld Projects.

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Introduction

Building state institutions is a slow and complex process that takes years to begin yielding tangible results. Under an optimistic scenario, it would take a fragile state such as Yemen around 20 years to reach a threshold level of administrative capability and bureaucratic quality suitable for “good-enough” governance.¹ The current round of conflict that began in late 2014 has put tremendous pressure on the few functioning government institutions Yemen has. Since escalating in March 2015, the war has caused an estimated \$20 billion in infrastructure losses – equivalent to 50% of pre-war GDP – greatly reducing the capacity for core government institutions to maintain essential services for the population.² This paper will shed light on one such institution, the Customs Authority.

In the past ten years the Customs Authority underwent significant development as its successive leadership, in cooperation with international partners, redesigned its technical and administrative operating procedures and adopted a more modern computerized data system.³ Despite the political instability Yemen endured during the 2011 uprising, which caused many government agencies to stop operating, the Authority was able to continue providing customs services. However, the latest round of conflict has been unprecedented in its reach. The blockade imposed on Yemen since early 2015, with all of the airports, seaports, and land ports being shut at least temporarily, and the widespread damage to vital infrastructure in the course of fighting has greatly diminished the revenues collected by the Customs Authority. With control over major customs ports divided between the Government of Yemen (GOY), the Houthi/Saleh alliance, and various local militia groups, the Customs Authority’s work has been severely hampered, including its ability to provide security services such as those related to smuggling.

This paper will highlight the impact of the political instability and the ongoing war on the Customs Authority, drawing largely from annual reports published by the Authority but not available online. Many state institutions in Yemen stopped updating their official websites during the war as funds dried up or authority switched hands. Some government websites ceased existing altogether, making crucial information difficult if not impossible to access and further hindering cooperation between local government bodies and international stakeholders. A major challenge for any post-conflict recovery plans will be rebuilding the effectiveness of state institutions, especially those relating to core government functions. The Customs Authority therefore provides an example of the magnitude of challenges faced by many of Yemen’s state institutions, which have been similarly debilitated during the course of the conflict.

¹ Pritchett & Weijer (2010) *Fragile States: Stuck in a Capability Trap?* World Development Report 2011 Background Paper. Pg. 11.

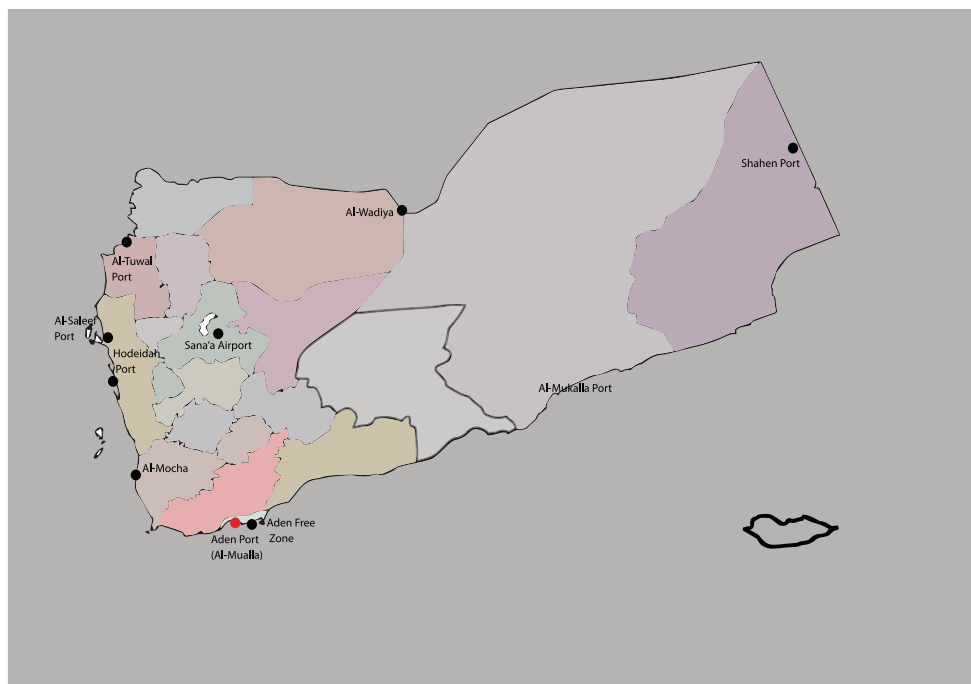
² Rother, Bjoern (2016) *The Economic Impact of Conflicts and the Refugee Crisis*. Pg. 14.

³ For example, over this period the Customs Authority hired 470 college graduates with experience and relevant knowledge, which provided a minimum level of technical expertise to develop the institution. Yemen Customs Authority (2012) Annual Report.

Background

The Yemen Customs Authority operates under the supervision of the Minister of Finance and implements a number of laws concerning customs, investment, and standards, in addition to laws combating smuggling, commercial fraud, and money laundering. As such, the Customs Authority plays an integral role in the economic, commercial, and security sectors in Yemen. The Authority operates 39 ports and customs offices across the country, and customs revenues contributed an average of %7.9 of total public revenues in the years 2009 to 2013.⁴

Figure 1: Location of Top Ten Revenue Generating Ports in Yemen



The Customs Authority plays an important role in facilitating international trade through the implementation of international standards adopted by the World Customs Organization (WCO) and the World Trade Organization (WTO). The Customs Authority started implementing the principles of the Harmonized System⁵ in 1998, which made it easier to categorize goods in accordance with international standards. The Customs Authority took a further step in July 2013 by joining the WCO's Revised Kyoto Convention, which aims at simplifying and unifying customs procedures internationally. Yemen's accession to the WTO in 2014 brought additional responsibilities to the Customs Authority, such as implementing Article 7 of the General Agreement on Tariffs and Trade, which aims to standardize the customs value of goods in a unified system in the international trade framework.

⁴ Statistics from the 2009 to 2013 issues of Yemen Customs Authority, *Final Accounts*, as well as the Yemeni Ministry of Finance (2013) *Government Statistical Bulletin for the Fourth Fiscal Quarter*.

⁵ More details on the Harmonized System can be found here:
<http://www.wcoomd.org/en/topics/nomenclature/overview/what-is-the-harmonized-system.aspx>

As the point of entry for all goods going into and out of the country, the Customs Authority also plays an important role in strengthening national security in cooperation with other state security institutions. It accomplishes this through a number of security procedures, including the use of screening devices and other modern technology. During the period from 2010 to 2015, the Customs Authority seized 13,720 items deemed harmful to public security and society, including weapons and drugs.⁶

The Impact of Conflict

Revenue

The revenue collected by the Customs Authority, including custom duties and any taxes collected at ports of entry on behalf of the Tax Authority, grew annually from 2010 until 2014, with the exception of 2011, during which the country went through an acute political crisis that reduced the volume of trade in Yemen.⁷ The table below displays the total annual revenue collected by the Customs Authority between 2009 and 2015.⁸

Table 1: Customs Authority Annual Revenue

Fiscal Year	Total Revenue (in billions of YR)	Total Revenue (in millions of USD)	Growth Rate
2009	117,104	585.5	Base Year
2010	140,481	702.4	20%
2011	115,574	577.9	-18%
2012	168,668	843.3	46%
2013	213,177	1,065.9	26%
2014	231,250	1,156.3	8.5%
2015	137,949	689.7	-40%

*The average exchange rate of YR 200 to \$1 in the base year 2009 is used in the table and the rest of this section for ease of comparison. In subsequent sections, the current official exchange rate of YR 250 to \$1 is used.

The large fluctuations in the growth rate of customs revenue during the previous seven years, as the table shows, is evidence of the devastating effect political instability and conflicts have had on the commercial environment and, more widely, is indicative of its effect on the performance of state institutions. Revenue saw a growth rate of 20% in 2010, but this progress was reversed in the following year by -18% as widespread protests led to the ousting of the former president, disrupting the work and provision of services of many

⁶ Yemen Customs Authority (2015) *Annual Report*.

⁷ Al-Mahfadi, Muhammad (2016) *Customs Revenue and the Repercussions of War* (Work Paper).

⁸ Yemen Customs Authority, *Final Accounts*, issues 2009 to 2014.

government institutions. In 2012, the year referred to as the “year of achievements” by the Customs Authority in its annual report, the revenue growth rate jumped to its highest, at 46%. The reason for the spike is multifaceted. A primary factor was the rising value of total imports, which reached YR 1,182.6 billion (\$5.91 billion) in 2012, a 36% rise from 2011.⁹ In addition, the increase in imports contributed to lowering the inflation rate from 19.3% in 2011 to 10.1% in 2012, as increased supply met the needs of the market after rising demands during 2011.¹⁰

This growth in imports began subsiding in 2013 and was reduced further in mid-2014 as the removal of fuel subsidies led to instability, culminating in the Houthi rebel movement taking control of the capital Sana’a in September 2014. The following year, the war and the blockade imposed on Yemen had a devastating effect on state revenue and on the performance of the Customs Authority as well. The total revenue collected by the Customs Authority in 2015 dropped to YR 137.9 billion (\$689.7 million) – a drastic 40% decrease from 2014 equivalent to a loss of around \$466.6 million.

Growing Rifts

The Houthis began asserting authority over many state institutions, including the Ministry of Finance, almost immediately after capturing Sana’a. However, the Customs Authority remained more or less a single institution even after President Hadi fled Yemen in March 2015 and established a government in exile. As part of the so-called economic truce between the Houthi/Saleh alliance and the Hadi government, revenues collected by the Authority at all ports under the control of both parties were injected into the Central Bank of Yemen (CBY) based in Sana’a. This changed in September 2016 when President Hadi announced the appointment of a new board of governors and the relocation of the CBY headquarters to Aden, which shortly after resulted in the Sana’a bank being cut off from customs revenue collected from ports not under the control of the Houthi/Saleh alliance.

Almost all of Yemen’s key customs ports have switched hands at least once since the war began. The last full calendar year all major customs infrastructure was held by the GOY was 2013. Using revenue figures for that year as an indicator, the Houthi/Saleh alliance as of October 2016 can be said to control ports accounting for about 50% of total potential revenue. At the peak of the Houthi/Saleh alliance’s territorial expansion, between March to July 2015 the GOY’s grip on customs ports was reduced to less than 10%, in terms of 2013 total revenue share.

⁹ *Final Accounts* (2012).

¹⁰ *Government Statistical Bulletin for the Fourth Fiscal Quarter* (2013).

Table 2: Customs Authority ports with 1% or greater total revenue share, 2013

	Customs Port	% of Total Revenue	Status
1	Hodeidah Port	41%	Controlled by Houthi/Saleh since October 2014
2	Aden Free Zone	26%	Controlled by local authorities and Hadi government
3	Al-Tuwal Port	10%	Captured by Houthi/Saleh at the beginning of the war. Shut down as it was destroyed by airstrikes and on going fighting in that area.
4	Shahen Port	5%	Controlled by local authorities and Hadi government.
5	Sana'a Airport	5%	Controlled by Houthi/Saleh.
6	Aden Port (Al-Mualla)	4%	Controlled by local authorities and Hadi
7	Al-Wadiya	3%	Hadi forces retook this port from the Houthi/Saleh alliance in June 2015. Located on the Saudi border in Hadramout governorate.
8	Al-Saleef Port	1%	In Hodeidah governorate, controlled by Houthi/Saleh since October 2014.
9	Al-Mocha	1%	Controlled by Houthi/Saleh since March 24, 2015, part of the frontline battles in Taiz.
10	Al-Mukalla Port	1%	Controlled by AQAP from April 2015 to April 2016, now under local authorities and Hadi government control.

The customs at seaports bring in around 70% of the total revenue collected by the Authority, almost all of which comes from just two ports.¹¹ Hodeidah Port, which has been controlled by Houthi/Saleh forces since October 2014, accounts for more than 50% of the revenue collected from seaports and about 40% of the total revenue collected by the Customs Authority. The Aden Free Zone, under the control of local councils aligned with the GOY since wresting Aden back from the Houthi/Saleh alliance in July 2015, contributes a quarter of the total revenue and more than 34% of the revenue collected from seaports.¹² The blockade of Yemen's seaports has played a major role in decreasing revenue by hindering the passage of goods. Hodeidah Port saw its revenue dashed by around 46% in 2015 when compared to the previous year,¹³ and revenue from the Aden Free Zone dropped 50% in 2015 compared to the year before.¹⁴

¹¹ *Annual Report (2013)*.

¹² Ibid.

¹³ *Final Accounts (2015)*.

¹⁴ Ibid.

Al-Tuwal land port is the third largest port in terms of pre-war revenue, and lies in Hajjah governorate on the border with Saudi Arabia. It was controlled by the Houthi/Saleh alliance the beginning of the war but taken out of service shortly after as it was destroyed by the airstrikes and heavy fighting still ongoing in that border area. Al-Tuwal used to contribute around 10% of the total revenue collected by the Customs Authority and as one of the most active land ports, 34% of all national exports transited through it.¹⁵ Shahan Port, in Al-Mahra governorate on the border of Oman, is the fourth largest customs port and accounted for 5% of total revenue in 2013. It is the only major customs port to have remained under GOY's authority for the entirety of the war.

The absence of state control in a number of governorates and along much of Yemen's border has weakened the Customs Authority's ability to provide services and collect revenue. This translates to a higher level of corruption at the ports and an increase in smuggling, which has expanded the so-called 'war economy'. In the most extreme example of this, Al Qaeda in the Arabian Peninsula (AQAP) took control of the port of Al-Mukalla in Hadhramout governorate from April 2015 to April 2016, and took advantage of the government's absence by smuggling oil and other goods and imposing tax and custom tariffs on trade.¹⁶ The total amount of revenue that was lost in 2015 as a result of smuggling is estimated to be around YR 55 billion (\$220 million).¹⁷ The security vacuum also caused a sharp decline in investment and imports, which are a central component of customs revenue. The amount of imports Yemen received in 2015 dwindled to YR 1,302.6 billion (\$5.2 billion), a 44% reduction from 2014.¹⁸

¹⁵ *Annual Report* (2013).

¹⁸ *Annual Report* (2015).

¹⁶ Reuters (2016) *How Saudi Arabia's war in Yemen has made Al-Qaeda stronger*:
<http://www.reuters.com/investigates/special-report/yemen-aqap/>

¹⁷ Al-Mahfadi (2016).

The Infrastructure

The Yemen Customs Authority and its international partners spent tens of millions of dollars in the past to upgrade its infrastructure, which includes 39 ports and customs offices spread across the country. For example, the Authority adopted the Automated System for Customs Data program ASYCUDA++ in 2002 with funding from the United Kingdom, the World Bank, and the Yemeni government. Near the end of 2014 the Customs Authority began gradually updating the system to ASCYUDA World, the modern standard, with the support of the Yemeni government. While the former system operated independently at each port, allowing traders blacklisted at one to move goods through another, ASCYUDA World links all ports to one server, speeding up the clearance process and better detecting banned traders. These two projects cost approximately \$4 million. The cost of the X-ray machines in major ports was approximately \$23 million, and was funded by a loan from the government of China.

The ongoing conflict has destroyed a substantial amount of customs infrastructure, and in some ports many of the technical systems and equipment were damaged or destroyed. According to the Customs Authority's Annual Report for 2015, there was damage to 16 customs ports, some of which were rendered completely out of service. These include the ports of Al-Tuwal, Khabash, Alab, and Al-Mocha. The estimated cost of the damages is YR 7.75 billion (\$31 million), distributed as follows:

- 21 buildings and warehouses at an estimated cost of YR 3.197 billion (\$12.8 million)
- Six X-ray machines at an estimated cost of YR 3.95 billion (\$15.8 million).
- Equipment for the information system at an estimated cost of YR 257 million (\$1 million).
- Seven electricity generators at an estimated cost of YR 348.8 million (\$1.3 million).

These numbers illustrate the challenge the Customs Authority faces in returning to carry out its responsibilities effectively. The gains made in preceding years in infrastructural development were made possible by significant assistance from international partners, who empowered the Authority to play a bigger role in strengthening the national economy and easing international trade. Beyond the financial burden of replacing customs infrastructure and equipment, the rebuilding process will take time. The existing pre-war bureaucratic hurdles and sluggish project implementation that existed in Yemen are likely to be compounded by weak government authority over many customs ports in the post-war period.

Employees

Hundreds of employees of the Yemen Customs Authority have lost their jobs as a result of the war, either as a direct consequence of the fighting or due to politically motivated disputes. For example, around 500 Customs Authority employees stopped working because the customs ports they were employed at were destroyed, or their workplaces were inaccessible due to active fighting. An additional 42 employees working at the Aden Free Zone and Al-Mualla Port were fired from their jobs because of increased hostility towards employees from northern areas of Yemen.

Conclusion

There are a number of key state institutions that will require priority in restoring their functions in the post-conflict period. The Customs Authority is one such institution due to the pivotal role it plays in generating state revenues and facilitating imports of goods that will be required for reconstruction and recovery. This paper attempted to provide a high-level overview of the current situation, but further work is required to assess the infrastructure and institutional damage, and develop a clear plan for swiftly restoring the functionality of the Customs Authority once the conflict ends.

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