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**Decentralization in Yemen**

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# Yemen Case Study

In Asia, as in many other regions of the world, decentralization occurs in countries of all sizes and in highly diverse contexts. A few countries are large and have substantial and heterogeneous populations, while others are much smaller in area and have populations lower in number and less varied in composition. Some countries have attained middle income status, while others remain poor. A number of countries have some history of decentralization and democratization, while others have had little previous experience.

Despite the great variety, many Asian countries have chosen to pursue some form of decentralization. The way decentralization is structured and functions, however, is as diverse as the countries themselves, and not always in systematic ways. This variety results from considerable differences in country characteristics, histories and various political economy drivers that shape the dynamics underlying how public governance is managed.

In order to better understand decentralization in Asia, EC DEVCO B2 prepared a set of short case studies--on Bangladesh, Bhutan, Cambodia, Indonesia, Nepal, Pakistan, Philippines, Sri Lanka, Vietnam and Yemen. This note presents the case of Yemen.

Since the domestic political crisis of 2011, and the demise of the 35-years old regime of president Saleh, Yemenis have been struggling to negotiate a new political order. Hopes for a fair and peaceful process were raised by new presidential elections, the setup of a transitional government led by president Hadi and the holding of a broad-based National Dialogue Conference (NDC), which was meant to lead to the drafting and adoption of a new Constitution. But the process broke down in 2014 with the military occupation of over half of the country by Huti tribesmen, supported by forces loyal to former president Saleh, which ousted the transitional government, while Mr. Hadi fled the country.

Since then Yemen has been engulfed in a civil war opposing the Hutis coalition, allegedly enjoying Iran’s support, to Sunni tribes, a resurgent Southern Yemen independence movement and a growing number of Al Qaeda fighters. More recently Saudi Arabia intervened to bomb Hutis’ positions, in a move that achieved little to resolve the conflict but worsened the unfolding humanitarian crisis. Most analysts agree that the country is trapped in a nightmarish situation whose outcomes are hard to predict. Remaining hopes are currently tenuously pinned on a new round of “peace talks” in Geneva.

## Underlying political economy context/drivers of decentralization

In such a context it may seem odd to discuss options and drivers of decentralization reforms in Yemen. Yet these reforms will inevitably be part of any future political settlement. Differences on the desirable structure of the State (federal, or unitary, with a greater or smaller degree of regionalization, and with a greater or smaller degree of local autonomy at sub-regional level) were hotly debated in the NDC and remain at the core of the current conflict.

Decentralization at regional and sub-regional level has been prominent in the discussions of the NDC before the collapse of the dialogue process and there is much to be learned from the NDC deliberation. In essence, the debate brought to light the difference between (i) the *political* perspective of regional elites, focusing on the federalization (or strong regionalization) of the country as a way to enlarge and reconfigure the composition of a new national power block (or eventually return to an independent South) and (ii) the *developmental* perspective of civil society and development advocates focusing on the empowerment of lower level (district) authorities and communities to mobilize resources and promote local development as a key to address the country’s development challenges. Ultimately the inability to reach a political consensus, made it impossible to discuss how, regardless of the unitary, regionalized or federal model adopted, decentralization reforms could be deepened and designed to promote effective local development

Interestingly however the NDC outcomes were finally aligned with the developmental perspective and suggested that while a strongly regionalized or federal Yemen might be a political necessity, the greatest impact on development would be made by autonomous and accountable *local (sub-regional: district level)* governments. Specifically the NDC Working Group on Economic Development (WGED), suggested that the primary role in the national economic management system should be given to the *lowest tier* administrative units (districts and municipalities), which should then be the entry points for the national effort to revive and develop Yemen’s economy. To reinforce the above point the Working Group on State Building (WGSB) recommended that sub-regional authorities be recognized as legally distinct (from state and regional administrations) entities with substantial fiscal and managerial autonomy.

Theserecommendations should continue to guide a re-engagement of external actors in support of decentralization reforms in Yemen, if and when this will become feasible.

## Decentralization policy

Since Yemen’s reunification in 1990, decentralization reforms have periodically resurfaced on the national political agenda because they are critical to address the country’s three major political and developmental challenges: (i) to build a modern State at its periphery, (ii) to secure the country’s unity against all forms of separatism and (iii) to adopt a more geographically diffuse and sector diversified (away from hydrocarbons) economic growth model: one in which *local* development and related resources mobilization would play a critical role for national development. With respect to the latter, Yemeni policy-makers have only to look back at the experience of Local Development Associations of the 70’s and 80’s to find evidence of both the potential of local autonomy for development and state building and of the economic and political cost of denying local autonomy and replacing it with centralized patronage.

With the adoption of the Local Authorities Law (LAL) in 2000 and, most importantly, of the “*National Strategy to Move Toward a Local Government System by 2020”*, (also known as the National Local Governance Strategy –NLGS) in 2008, the decentralization process was put in motion again, but real change was compromised by the government’s hesitations to translate it into an implementable national program, the lack of engagement of major aid providers, and, eventually, the crisis of 2011.

Yet, the post-2011 transitional government indicated as one of its priorities (Ministry of Planning and International Cooperation) the recovery of the NLGS. Again, a future re-engagement of external actors in support of decentralization reforms could start from supporting the NLGS, as much could be done to promote developmental local authorities, within the existing legal framework. Ultimately however a new constitutional foundation and an organic legislation more enabling than the LAL of 2000 will be required.

## Basic structures, actors and mechanisms

The current Constitution of Yemen does not mention local governments. Instead it divides the country into two tiers of subnational “administrative units”. The upper tier is made of 21 regional governorates; the lower tier includes 333 urban and rural districts. The capital city Sana’a has the status of governorate and its neighborhoods that of districts. Local Authorities overseen by elected local councils were established at the level of both the governorate and district administrative units and both their internal structure and mutual relations were regulated setting them up as distinct “legal entities” within the public sector at large. Local Authorities in Yemen therefore include:

* *Directly elected local (governorate or district) councils*, responsible for: (i) adopting plans, programs, and investment budgets of the respective administrative unit; (ii) overseeing their implementation and (iii) assessing the performance of the local service delivery units (see below “executive organs”). Each council elects among its members a secretary general of the council and establishes three mandatory committees for “planning”, “services delivery” and “social affairs”.
* *Appointed chief executives*: a governor (for governorates), or a general director (for districts), who both chair the local councils and head the local administrations. Since May 2008, regional governors (but not district directors) were *indirectly elected* by a college of district and governorate councilors in their respective governorates. Yet their functions and accountability relations have not been modified.
* *Executive organs,* branches of line ministries and national agencies in the local jurisdictions. Through governors and district directors, they have a *dual* accountability - to the local councils (for the implementation of local plans and budgets), and to their respective central agencies (for national sector policies, programs and projects).

Local policy making is the responsibility of the local authority’s *management committee* composed of the chief executive (governor or district director), the council’s secretary general, and the heads of the three mandatory committees of the council. Local programs and projects administration is the responsibility of the local authority’s *executive office*, composed of the chief executive, his deputies, the council’s secretary general and the heads of the executive organs (sector and other agencies).

## Decentralization Outcomes

There has been no rigorous attempt to gauge the developmental impact of enacting the LAL of 2000 and electing subnational councils of 2001. Yet there is some evidence that local authorities, when able to exercise discretion, have realized substantial efficiency gains in the use of public funds for small-scale infrastructure. However, since the developmental potential of decentralization depends on increased local autonomy and accountability, it would be surprising if reforms that changed so little in these respects had any major developmental impact. The 2000 LAL did not create genuine developmental local authorities (this was the task that the 2008 NSLG set out to accomplish), but only made (on paper if not in practice) the existing local administration of the state *also* accountable to an elected local council.

The regulations of the LAL (Decree 269/2000) define the “Tasks and Responsibilities” of local authorities. The list is extensive and covers services and infrastructure in practically all sectors. But the functions listed, are neither “devolved” nor “delegated” to the councils. They are, de jure, a responsibility of the “de-concentrated” organs of the central administration. De facto, even such “deconcentration” is largely illusory as ministries in Sana'a continue to make all major decisions; leaving hardly anything to the autonomous choice of their branch offices and of the councils to which such offices should be also accountable. In practice, local councils may influence only the selection and funding of some small-scale infrastructure projects.

A quick look at intergovernmental fiscal relations provides a sobering view of the actual scope of Yemeni local authorities to operate as developmental actors. National accounts show that local authorities (councils + de-concentrated executive organs) get about 15% of the total public sector revenue (about 1.5 B. USD in 2010). But this revenue is made of *two streams* (each with several sources). The first is revenue earmarked for mandatory recurrent expenditures (wages and other operating costs of the local executive organs), which is totally derived from categorical central transfers. The second is revenue earmarked for capital expenditures which comes from both local and central sources and is somehow improperly called LA’s “*own revenue*”. In an average year, the two streams represent respectively 85.0% and 15.0% of the total revenue/expenditures of local authorities. Only the latter is controlled by the local councils, representing about 2-3 % of the total public sector resources.

Moreover, as the bulk (95%) of the first stream of funds goes to salaries of the de-concentrated administration (the executive organs), little is left for other costs for services delivery and local assets maintenance. Yet, councils can neither supplement (with some of the limited resources they control) nor optimize, (through inter-sectoral resources allocation choices), the 5% left for non-salary operating costs. They have no discretion on local public sector recurrent expenditures as the recurrent budget and the capital budget are governed by different logics. The result is that local capital programming is not framed by a realistic local development strategy and the system is strongly biased in favor of new investments, against maintenance of existing facilities and actual services delivery

On the revenue side, the constraints affecting the developmental potential of local authorities are no less stringent. Central government sets both bases and rates of local taxes and fees with no margins for local discretion. Most revenue sources assigned to local authorities do not yield revenue that justifies collection costs and the absence of property tax in urban areas is a major limitation to sustainable local authority self-financing.

Moreover, some local revenues come from fees on different administrative services (authorizations, permits, licenses, legal documents), which are not available in all districts. On the other end, according to a recent study, locally assessed and collected revenue could increase by at least 40%, if basic capacity problems with local revenue administration were addressed, including clarifying the categorization of some of the revenues, providing transparent monetary incentives to collectors and focusing efforts on the Zakat, Qat consumption tax, and fees for services delivered by executive organs (particularly education).

Finally, reflecting the deconcentration (as opposed to devolution) approach taken by the 2000 LAL, the budgets of local authorities in Yemen are just sub-sets of the national budget, and are ultimately approved with the national annual budget law, leading to excessively short timeframes for preparation and lack of flexibility for amendment. In fact local authorities must complete the formulation of their budget very early in the year (often before they started executing the current year activities) and cannot adjust their budget during the fiscal year, as this would require an amendment of the national budget.

## Evolution of decentralization and local government performance

Even if enabling constitutional and legal provisions were eventually put in place, and a system of genuine local governments emerged, as foreseen by the 2008 NSLG, it would be unrealistic to expect that the current sub-regional administrative units of Yemen develop overnight into genuine local governments that promote local development and build the state “from below” across the country. This will obviously require a long-term process of change of attitudes, capacities, and leadership in local political and administrative personnel, which is in turn dependent on the establishment of political incentives for the emergence of effective local leaders, and the implementation of effective capacity development programs.

Local authorities’ capacity development efforts are typically multidimensional and long term, and require the identification of specific entry points for proper sequencing and overall effectiveness. In Yemen two aspects of capacity would be the logical entry points of any local authorities’ capacity building effort.

The first is local capacity for public resources management, including local revenue administration and local expenditures management. Helping local authorities develop their own institutions and capacity for participatory and technically sound planning, investment programming, budgeting, implementation and procurement, assets management, accounting, auditing and evaluation, is *a* prerequisite for any further development of their functions and resources.

This capacity would need to be developed to fulfill the statutory, legally mandated obligations of district and municipal governments, rather than the conditions imposed by special aid-financed programs, including those that might be managed by the SFD. In particular, community-level participatory planning institutions and techniques as well as innovative community practices (e.g. community contracting) should be integrated within the broader, legally regulated, public expenditure cycle and financial management procedures of the local authorities.

The second dimension concerns the building of a minimum of genuinely local administration. As hinted above, currently the sub-regional authorities do not really have an administration of their own and must rely, on the agencies of the central administration operating in their jurisdictions. This would need to change if full-fledged, autonomous and accountable, local governments are created. However, it is neither necessary nor desirable to reproduce at local level the same structures of the central administrations this would represent a waste of resources. Instead some innovative solutions would be needed to strengthen the capacities of the current *Diwan* offices of district directors and governors, which are indeed the embryos of a genuinely local administration, with a few multi-functional agents (both reassigned and retrained civil servants and contractual technical staff).

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