

Yemen

Fiscal Year 2025

Capacity Development Activities

Financial Supervision and Regulation

Enhancing Supervision and Regulation on Capital Adequacy Framework

As part of a multi-step project aimed at a full development and implementation of the Basel III Capital Adequacy Framework, a mission during 9-13 June assisted the Central Bank of Yemen (CBY) supervisors in capacity developing of Basel III Capital Adequacy Framework Pillar 1. The mission presented and discussed the components of Pillar 1, the application of proportionality to regulatory requirements and areas where Yemeni supervisors may exercise national discretion. The review and discussions improved Yemeni supervisors' understanding of Pillar 1 components and will help them making informed decisions on the development of their own regulation.

Implementing Pillar 1 of the Basel III Capital Adequacy Framework

During September 16-20, METAC supported the Central Bank of Yemen (CBY) in drafting the Pillar 1 regulation and develop corresponding reporting templates, aligning them with the draft regulation. The mission also discussed the regulatory issuance process and stages, and steps needed for conducting a quantitative impact study.

Developing risk management regulations

During October 19-23, a METAC mission assisted the CBY in developing risk management regulations specific to its banking sector. The mission team presented key principles from the Basel Committee, guiding the CBY representatives in identifying significant risks in the Yemeni banking industry that require regulatory focus and specific requirements. The mission team also outlined the necessary approaches and processes to adapt these requirements to the banking industry. Discussions concluded with drafting a regulation framework for the Yemeni banking system, which the CBY representatives will further refine and develop.

Strengthening Supervisors' understanding of the Basel III Pillar 1 Capital Adequacy Framework

In February, METAC assisted to the Central Bank of Yemen in strengthening its supervisors' understanding of the standardized approaches outlined in the Basel III Pillar 1 Capital Adequacy Framework applicable to conventional banks. The mission presented practical examples and utilized draft supervisory reporting templates developed by METAC to demonstrate the calculation of regulatory capital. It also addressed the implementation of standardized approaches for credit risks and the simplified standardized approach for market risk. The draft templates were tailored as necessary to ensure alignment with the draft regulation while considering additional factors pertinent to the Yemeni banking sector.

Government Finance Statistics and Public Sector Debt Statistics

Compilation of GFS/PSDS data

During 29 September – 3 October 3 a GFS/PSDS in-person workshop and follow-up mission on data compiled for the Yemeni authorities took place in Cairo, Egypt. The authorities demonstrated high-level engagement and sent a 15-member team from three institutions (Central Bank, Ministry of Finance and MOPIC). The workshop assisted Yemeni officials in building capacity for assessing the quality of debt time series, check integration of above-the-line and below-the-line data, review quality and coverage of the compiled GFS and raise awareness of international standards and requirements for data reporting to WB/IMF data bases. Presentations on specific topics were delivered, with an increased attention on the practical demonstration and hands-on work.

Before the in-person mission, a series of virtual meetings with authorities focused on preparing the data, assess inconsistencies and data gaps. The authorities received extensive training regarding the submission process and requirements for Quarterly External Debt Statistics, Quarterly Public Sector Debt Statistics, and the GFS Survey Questionnaire along with preliminary compilation, including data and metadata. Considering the deficiencies detected in the statistical production, the mission presented several techniques for data validation and introduced key concepts for internal work procedures based on best practices from other economies. The authorities appreciated the introduction of these new elements of statistical production and committed to further developing and integrating them within their institutions. The mission will be complemented with virtual meetings of up to 40 (forty) hours between September–and December 2024.

Compiling and Disseminating Government Finance Statistics (GFS) and Public Sector Debt Statistics (PSDS)

Three institutions (Central Bank, Ministry of Finance, and Ministry of Planning and International Cooperation) participated in this mission in April to build their capacity in assessing the quality of debt time series, check integration of above- and below-the-line data, review quality and coverage of the compiled GFS and learning about international standards and requirements for data reporting to the World Bank/IMF databases. Presentations on specific topics focused on practical demonstration and hands-on work. The mission made several recommendations to improve GFS/PSDS, which will be followed up in virtual meetings during May–June 2025.

Public Financial Management

Rolling out the Expenditure Control and Monitoring of Commitments (ECMC) framework

An off-site mission in Amman during February supported Yemen's Ministry of Finance in rolling out its new "expenditure control and monitoring of commitments" (ECMC) framework. The mission evaluated the progress made in institutionalizing the ECMC framework, and identified challenges in the 2024 rollout, such as resistance from key stakeholders, sudden interruption of donor funding for training and, the limitations of the Excel tool developed to help implement the framework. The mission team also supported the authorities in developing a realistic roll-out plan for 2025, which also included training and IT tool development components. The event concluded with a review of recommendations and next steps to support Yemen implement this key reform.

Strengthening Cash Management Practices

An off-site mission in Amman during April supported Yemen's Cash Forecasting Team (CFT) from the Ministry of Finance in strengthening existing cash management practices. Officials from the Ministry of

Finance, the Tax Authority and the Customs Authority participated. The mission first discussed the two cash forecasting scenarios prepared by the CFT for 2025 and took stock of progress made in cash forecasting practices and processes. It then supported the authorities in developing an initial annual borrowing plan for discussion with the Central Bank of Yemen prior to integration in the cash forecasts. The mission also delivered a two-day workshop to build the capacity of the CFT in preparing risk scenarios. At the request of the Yemeni delegation, it presented different practices of institutional arrangements for cash management and treasury single account designs based on country examples.

Real Sector Statistics

Enhancing Staff Capacities on the GDP Compilation

A mission during April trained staff of the Central Statistical Organization (CSO) and assisted the CSO with data assessment and design of a high-level workplan for annual GDP compilation.

Revenue Administration

Support on SoClass and Java computer language skills to enable better use of the ASYCUDA World customs system.

During the week of 6-10 October, METAC provided the Yemen Customs' IT staff with in-person training (off-site in Dubai), supplemented by a week of online training tailored to specific needs.

Compliance Improvement Plan for the banking sector

In a virtual help desk assignment during 1 July to 30 September, METAC worked with the Yemeni General Taxation Department (GTD) to complete the Compliance Improvement Plan for the growing banking sector. The Compliance Improvement Plan (CIP) is essential for the tax administration to better understand taxpayers and related risks, while identifying effective treatment strategies. Participants discussed critical areas for the CIP, including developing a risk profile for the banking sector, assessing compliance risks, establishing risk criteria, formulating treatment strategies, and considering stakeholder engagement. The discussions were marked by enthusiasm and active participation. The pilot CIP for the banking sector will serve as a model for future compliance programs in Yemen, enabling the GTD to expand its Compliance Risk Management practices to other high-risk industries. Additional IMF remote support will continue through the end of 2024 to assist with the implementation of the banking sector CIP.

Support on Java and SoClass

Building on an in-person workshop held in October, METAC provided five days remote support to Yemen Customs on Java and SoClass computer languages, aimed at enhancing customs officers' proficiency in utilizing the ASYCUDA customs clearance software.

Enhancing Organizational Structure in Tax Administration

Modernizing organizational structures within tax administrations is essential for enhancing operational effectiveness and improving service delivery. The Yemeni General Taxation Directorate (GTD) made significant strides in this endeavor, demonstrating a strong commitment to improvement. A 23-27 November follow-up mission in Cairo focused on refining the organizational structure to include three general directorates and establishing three hierarchical levels under the Commissioner. The mission also

established clear mandates for each department within the general directorates and reviewed the "Job Description" document created by the GTD, to ensure alignment with the newly proposed structure.

Implementation of the Compliance Improvement Plan

METAC continued its support to the Yemeni GTD in preparing for the implementation phase of the Compliance Improvement Plan for the banking sector. METAC offered a virtual help desk during November and December 2024. The mission discussed various tax risks present in the banking sector, specifically focusing on Islamic banking products. It also shared with GTD a series of notes outlining good practices for managing Large Taxpayers and ensuring compliance in the banking sector.

Developing a Tax Procedures Code

In February, METAC supported Yemen's General Taxation Department (GTD) in developing a Tax Procedures Code (TPC). This initiative, executed jointly with the IMF's Legal Department, consists of three distinct phases: (i) diagnostic phase, (ii) drafting phase, and (iii) TPC draft finalization phase. The team conducted a series of workshops with the Yemeni tax authorities to share good practices in legislating tax procedures and to evaluate the existing legal framework and its practical application. Discussions with the delegation focused on understanding the current situation, clarifying the distinctions between the administrative provisions of the Income Tax Law and the General Sales Tax Law, and establishing a unified approach for the tax procedures of both laws. The team also outlined a comprehensive legal reform strategy to be adopted during the drafting of the TPC in the upcoming second phase, scheduled for FY26.

Remote Mission on Tax Debt Management

In April, METAC conducted a remote mission to enhance understanding of Yemen's tax debt management practices. Through a series of workshops and discussions, the mission team explored the current practices, the relevant legislative framework, and the status of tax arrears. This analysis was crucial for formulating a strategy aimed at debt reduction and prevention, which is vital for improving the collection of tax debt. The insights gained during this mission will support efforts to enhance tax revenue management and ensure effective fiscal operations.

Training the Yemen Customs Authority on the Core Framework of the ASYCUDA World System.

This follow-up initiative during 10-17 April in Amman, provided four officials from the Yemen Customs Authority with hands-on expertise in the core framework of the ASYCUDA World system. The entirely practical sessions featured advanced exercises that both reinforced concepts covered in a prior training phase and introduced new capabilities – particularly in reporting and dashboard creation.

Tax Policy

Improving income and consumption tax policy

In response to a request from the Yemeni tax authorities, a joint METAC – HQ virtual capacity development mission during 18-31 August reviewed and assessed the tax system and provided recommendations for revenue mobilizing measures and tax reforms. The mission held discussions with the authorities about ongoing policy reforms and related difficulties, the mission's recommendations, and the way forward.

