



Project Proposal for

Yemen

January 2025

Component: Revenue

Module: RM II– Revenue Administration



PROJECT SUMMARY

COUNTRY: Yemen

LEAD DEPARTMENT: FAD

REGION: MCD

PLANNED DATE: FY26-27

FUNDING PROGRAM TITLE: Yemen – GPFP Revenue Module I&II

PROJECT MANAGERS: Fadia Sakr (Revenue Administration, FADR1)

ESTIMATED BUDGET \$ 513,993

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ACRONYMS

CA	Customs Administration
CD	Capacity development
FAD	IMF's Fiscal Affairs Department
FCS	Fragile and conflict-affected states
GTD	General Taxation Department
METAC	IMF's Middle East Regional Technical Assistance Center

I. PROJECT PURPOSE

Country request and relevance/importance

The Yemeni authorities have expressed interest in a new capacity development (CD) program to ensure continuity of and to build on reforms in revenue administration. These reforms benefited from support of the IMF's Fiscal Affairs Department (FAD) and the Middle East Regional Technical Assistance Center (METAC) in recent years.¹

Yemen has not received any loans from the IMF recently. However, the Fund continues to conduct periodic assessments of the Yemeni economy in accordance with Article IV of its charter and staff continues to provide policy advice and technical assistance to the Yemeni authorities. Nevertheless, there are constraints to Fund engagement in Yemen, including the inability to offer advice on policies related to areas outside the authorities' control, even when such policies are critical for macroeconomic stability.

Description of Modules

This project will support revenue reform efforts, with the medium-term objectives and outcomes being part of ongoing and new initiatives agreed with authorities. CD will be provided on improving organizational and governance arrangements as well as enhancement of tax and customs compliance and supporting the modernization of core tax and customs administration.

The estimated budget for this two-year project is \$513,993 and endorsement is requested for the full amount through FY27.

II. BACKGROUND

Macro-fiscal situation

The armed conflict that started in 2014 is currently the key driver of fragility in Yemen. It has weakened Yemen's institutions and the economy and resulted in an acute humanitarian crisis.

¹ Fiscal Affairs Department (FAD) and Middle East Regional Technical Assistance Center (METAC) support was provided to the General Taxation Department (GTD) and to the Customs Administration (CA).

The resulting fragmentation of public institutions has led to fractured policymaking and constrained institutional capacity.

Recent fiscal reforms are yielding positive results.² Following the Fund's advice, the authorities have adopted the market exchange rate for oil revenues, increasing budget receipts by some 3 percent of GDP on an annual basis. This reform, together with higher oil prices and public wage bill restraint, has greatly reduced the budget deficit, thereby lowering monetary financing to almost zero. The submission to parliament of a budget for 2022, the first since 2019, has been another major step forward. Looking ahead, further revenue mobilization discipline will be needed to safeguard hard-won gains in reducing the deficit.

Country engagement and alignment to reform priorities

The authorities have recognized the importance of fiscal structural reforms through enhanced tax and customs collection, which is seen as a crucial source of funding for increased social and investment spending. Previous CD support from METAC and FAD has identified reforms needed in key areas, each at varying stages of implementation, and additional resources, beyond METAC's existing resources, are needed to support these reforms.

Several internal and external challenges are preventing the General Taxation Department (GTD) and the Customs Administration (CA) from implementing an efficient and effective tax collection.

These include: (i) the ongoing conflict between the internationally recognized government and the Houthi movement; (ii) the capacity constraints that may limit the traction and feasibility of reform adoption and implementation; (iii) a manual operating environment and the absence of an electronic reporting system, which hinders effective communications between headquarters and regional offices; (iii) weak organizational structures; and (v) political interference. This project aims to help the authorities to navigate some of these challenges, in particular around increasing capacity and strengthening organization structures.

² Republic of Yemen – 2022 – Economic Developments.

III. PROJECT MODULES - DESCRIPTION

This proposal will provide CD support to Yemen in the area of revenue administration. FAD CD will support improvements within the strategic objectives presented in Table 1.

Table 1. Summary of Objectives covered by the Proposal

Component	Module	Objective
Revenue	RM II / Revenue Administration	- Strengthened core tax administration functions - Strengthened revenue administration management and governance arrangements

A. RM II - Revenue Administration

Scope

Yemen has substantial and wide-ranging CD needs. Given the necessity to follow up on and embed previously delivered CD activities for both tax and customs administrations, the proposed CD activities will support the implementation of agreed revenue administration reforms. These reforms are deemed macro-critical for enhancing economic frameworks and institutions, ultimately aiming to improve economic outcomes, transparency, and governance. The CD efforts will focus on building capacity in key revenue functions, in response to the authorities' request for increased traction and staff training.

Program Objectives

CD will focus on three objectives: (i) Strengthened management and governance arrangements; (ii) Strengthened core tax administration; and (iii) Improved customs administration. In particular, CD activities will focus on:

- Review of the operations and reform plans of the GTD and the CA.
- Improve the integrity of the taxpayer register of the GTD.
- Review and improve the organizational structure of the customs administration.

Expected Results (outcomes)

CD under this module is expected to help Yemen achieve sustained revenue improvements and develop stronger administrative institutions. The project is designed to strengthen Yemen's institutional capacity and modernize its overall tax and customs operations and facilitate their further improvement. The expected results of this engagement are:

- Integrity of the taxpayer base and ledger is strengthened.
- Strategic and operational plans prepared and adopted.
- The organizational structure is aligned with good practices.

IV. ORGANIZATIONAL ARRANGEMENTS

A. Country Engagement

Yemen has been a beneficiary of FAD CD in revenue administration. Recent CD support has been provided to the GDT and to the CA, particularly by METAC. These projects aimed to: (i) improve the GDT'S organizational structure; (iii) advise on the Integrated Tax Automation System; (iii) enhance the integrity of taxpayer register; (iv) audit for main industry sectors; and (v) improving taxpayer services; introduction to risk-based customs controls and PCA programs. More work is needed to fully implement reforms in many areas.

B. Delivery Modalities

CD delivery will prioritize in-person activities due to the country's low capacity and the need for a more hands-on approach. Given that IMF security policy mandates that missions to Yemen must be conducted outside the country, in-person activities will take place offsite in a third-party country. Virtual delivery methods will be employed wherever possible, especially to enhance on-the-ground support, including pre-engagement and post-engagement meetings and implementation support. The following CD activities will be delivered as a package:

- **Headquarters-led (HQ) missions** to provide strategic recommendations, conduct regular follow-ups, assess progress, inspect short-term expert (STX) work, coordinate with other CD providers, and adjust reform implementation plans.

- **STX** assignments to help implement the recommendations delivered by HQ and METAC missions; a limited number of STXs will be assigned to provide specialized assistance in specific areas of revenue administration.

C. Coordination / Cooperation

Partner	Coordination Type	Coordination Area	Frequency
United States Agency for International Development (USAID)	Sharing of information	Status of CD provided	Regular
United Kingdom Foreign, Commonwealth & Development Office (FCDO)	Sharing of information	Status of CD provided	Regular
European Union (EU)	Sharing of information	Status of CD provided	Regular
Organisation for Economic Co-operation and Development (OECD)	Sharing of information	Status of CD provided	Regular

V. RISK ASSESSMENT AND MITIGATION

Category/Module	Description	Risk Assessment	Mitigation Measures
EXTERNAL CLIMATE/CONDITIONS			
RM II - Revenue Administration	Challenging security situation characterized by instability in the environment.	High	Strengthening capacity of revenue administration as an important revenue generator.
POLITICAL SUPPORT			
RM II - Revenue Administration	There is strong support for revenue administration from the Minister of Finance.	Medium	Maintain good contact with the Minister of Finance to strengthen the work of revenue administrations and leverage MCD to maintain contact and provide progress briefings with Minister of Finance on priority areas.
MANAGEMENT AND TECHNICAL STAFF SUPPORT AND COMMITMENT			
RM II - Revenue Administration	Reform commitment of senior officials is high but weak technical skills and capacity among the staff could create obstacles to efficient delivery of the program.	Medium	Mentoring management of revenue administrations to strengthen their capacity. Building in training elements to our CD advice wherever relevant.
RESOURCE ADEQUACY			
RM II - Revenue Administration	Lack of financial resources, weak infrastructure, and limited support functions	High	Authorities to be encouraged to provide necessary resources to the revenue administrations (infrastructure, ITAS, etc.)
OTHER RISKS			
RM II - Revenue Administration	Multiple donors are providing assistance to the revenue administrations which could possibly create gaps and overlaps in donors.	Medium	Establish mechanisms to incorporate and coordinate all partner CD relevant to the project's implementation.

VI. CD DELIVERY PLAN

Table 2. Summary of Indicative CD Delivery

CD Modalities (Remote or Field-based CD)	FY26	FY27	FY28	Grand Total
RM II – Revenue Administration				
HQ mission	2	-	-	2
STX visits	-	2	2	4

Note: In-person delivery (off site) was chosen in all instances because of the poor technology available in Yemen.

Table 3. First year workplan

Timing	CD Modality	Proposed Topics of CD
RM II - Revenue Administration		
Q1/FY26	Field-Based work - FB	Tax: Review the operations and reform plans of the (scoping visit)
Q1/FY26	Field-Based work - FB	Customs: Review the operations and reform plans of the CA (scoping visit)

VII. PROGRAM FINANCIALS

Module	FY25	FY 26	FY 27	TOTAL (USD)
Direct Delivery				
RM II - Revenue Administration	-	\$313,569	\$166,799	\$480,368
Trust Fund Management Fee (7%)	-	\$21,950	\$11,676	\$33,626
TOTAL	-	\$335,519	\$178,475	\$513,993

VIII. TARGETED LOGICAL FRAMEWORK

A. RM II – Revenue Administration

Objective	
Strengthened core tax administration functions (SDG 17.1) - TAD	
Outcome(s)	Indicator(s)
The integrity of the taxpayer base and ledger is strengthened	Knowledge of taxpayer base and potential taxpayers improved through robust taxpayer registration policies and procedures (TADAT POA1-2)
	More accurate and reliable taxpayer information held in centralized database (TADAT POA1-1)
Objective	
Strengthened revenue administration management and governance arrangements (SDG 17.1) - RAM	
Outcome(s)	Indicator(s)
Organizational arrangements enable more effective delivery of strategy and reforms	Clear organizational structure along functional lines and/or taxpayer segments established and operating or strengthened
	Clear separation of roles and responsibilities between HQ (definition of standard operation procedures, planning and monitoring) and local branches (execution) adopted
Capacity for reform increased due to clear reform strategy and a strategic management framework adopted and institutionalized	Strategic and operational plans prepared and adopted