**Understanding the Current Structure and Finances of the Yemeni Government:** Analysis of Historical Data from 2007 to 2012

# Report Prepared by Dr. Khaldoon MohammedAbbreviations and Acronyms

CBY Central Bank of Yemen

CFA Central Finance Agency

CSMP Civil Service Modernization Project

CSO Central Statistical Office

GDP Gross Domestic Product

GNP Gross National Product

GoY Government of the Republic of Yemen

IMF International Monetary Fund

MoCSI Ministry of Civil Service and Insurance

MoF Ministry of Finance

MoIT Ministry of Industry and Trade

MoLA Ministry of Local Administration

MoO Ministry of Oil & Minerals

MoPIC Ministry of Planning and International Cooperation

**Introduction**

This report provides an overview of Yemen's fiscal budgets from 2007 to 2012. It includes historical analysis of revenues and expenditures according to functional, administrative and economic classifications. Historical averages, distributions and growths of revenues and expenditures will be presented accordingly. Major fiscal, legal and institutional challenges such as the presence of ghost workers, extra budgetary funds, special accounts and tax and customs evasions will be examined and explained.

By the end of 2012, Yemen's initial actual budget deficit was $1.775 billion (6% of GDP) with a total public debt of 48.5% of GDP and a 5-year average inflation rate of 11% (Yemeni Central Statistical Organization, 2013; Yemeni Ministry of Finance, 2013). To finance its increasing fiscal deficits, Yemen has been increasingly relying on the issuance of treasury bills and foreign aid, such as the Saudi $3 billion aid in 2012($2 billion in oil subsidies and $1 billion in a fixed deposit at the CBY), to finance budget deficits and economic development plans. As of January 2013, total treasury bills outstanding was YR 921 billion ($4.287 billion) with an over draft facility at the CBY for more than YR700 billion ($3.2 billion).

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| **Gross Domestic Product (GDP)** |  | **2007** | **2008\*** | **2009\*** | | **2010\*\*** | | **2011\*\*\*** | | **Growth Rate** | |  |
| **GDP at market prices (MIL. YR)** | 5,099,905 | 6,072,272 | 5,697,556 | | 6,725,671 | | 6,499,075 | | 6.25% | |  |
| **GDP at market prices (MIL.US$)** | 25,634 | 30,395 | 28,088 | | 30,628 | | 30,398 | | 4.35% | |  |
| \* Provisional Actual | \*\* Provisional | \*\*\* Comp |  | |  | |  | |  | |  |
| **Source: CSO (2013)** |  |  |  | |  | |  | |  | |  |
|  |  |  |  | |  | |  | |  | |  |
| **% of Yemen's GDP** |  |  |  | |  | |  | |  | |  |
|  | **2007** | **2008** | **2009** | | **2010** | | **2011** | | **4-year Average** | |  |
| **Total Revenues And Grants** | 28% | 33% | 23% | | 27% | | 27% | | 28% | |  |
| **Total Expending** | 34% | 37% | 32% | | 31% | | 32% | | 34% | |  |
| **Deficit** | 6% | 4% | 10% | | 5% | | 5% | | 6% | |  |
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| **Gross National Product (GNP)** |  | **2007** | **2008** | **2009\*** | | **2010\*\*** | | **2011\*\*\*** | | **Growth Rate** | |  |
| **Yemen's GNP at market prices (MIL.us$)** | 24,357 | 28,588 | 27,007 | | 29,017 | | 27,938 | | 3.49% | |  |
| \* Provisional Actual | \*\* Provisional | \*\*\* Comp | |  | |  | |  | |  | | |  |
| **Source: CSO (2013)** |  |  |  | |  | |  | |  | |  |
|  |  |  |  | |  | |  | |  | |  |
| **% of Yemen's GNP** |  |  |  | |  | |  | |  | |  |
|  | **2007** | **2008** | **2009** | | **2010** | | **2011** | | **4-year Average** | |  |
| **Total Revenues And Grants** | 29% | 35% | 24% | | 28% | | 29% | | 29% | |  |
| **Total Expending** | 36% | 39% | 34% | | 33% | | 35% | | 36% | |  |
| **Deficit** | 7% | 4% | 10% | | 5% | | 6% | | 6% | |  |
|  | **Source: CSO (2013)** |  |  |  | |  | |  | |  | |  |

The 2013 fiscal budget includes an estimated fiscal deficit of YR 682 billion ($3.18 billion) or 10% of GDP. The Yemeni government relies heavily on oil revenues that provide 70% of goods exports and 16% of gross domestic product (Yemeni Central Statistical Organization, 2013). Oil revenue finances 52% of Yemen’s 2012 total Expending (Yemeni Ministry of Finance, 2013). Owing to the nature of revenue sources in Yemen, central revenues are estimated to account for 98% in 2013 fiscal budget while local revenues are estimated to account for 2% of total revenues. As a result, the central subsidies to local authority is projected to account for more than 90% of local authority's total expending in 2013.

**Current Fiscal System**

**Local Authority**

The Local Authority Law of 2000 seeks to fiscally decentralize the Yemeni government by increasing local budgetary autonomy. Before 1999, fiscal allocations were tightly controlled by the central government, creating delays in local development projects. Most local revenues generated through taxes and fees were transferred to the capital, Sana’a, with virtually all of local budgets coming from fund transfers from the national government. The new law provides that local authorities will keep revenues collected at the local level. Portions of monies collected by the central government will be distributed to municipalities based on population density (See Appendix: Governorates' Population Density).

The Local Authority Law was passed to translate the principles of decentralization and the general framework of the local authority as prescribed in the Country's Constitution. A series of resolutions were followed and represented in the followings Presidential decrees:

1. Presidential Decree No. (269) for the year 2000 on the Regulations of the Local Authority Act.
2. Presidential Decree No. (24) for the year 2001 on the Financial Regulations of the local authority.

Those legislations have resulted in changes in the powers and the authority of managing the internal affairs of Yemen, particularly in the service affairs and the classification of the fiscal budget into revenues and expenditures.

**Authority divisions and Powers Structure**

Under the current system, the government body is divided into two levels of governance:

1. **Central Authority (National)**, which consists of:
   1. The legislature (Parliament)
   2. The judiciary body
   3. The armed forces and security
   4. The Central Organization for Control and Audit and its branches
   5. The line ministries and its agencies
   6. The general agencies and institutions and its branches
   7. All institutions that have a public general purpose in the national level such as the Shura Council, the Office of the Presidency and its branches, the Prime Minister's office and its branches
2. **Local Authority (Sub-national)**, which consists of:
   1. Head of the Administrative Unit (a governor of the governorate and a director of the district)
   2. Producing local councils
   3. Line ministries' executive agencies in the administrative units (governorate and the district)

As a result of the Local Authority Law and its bylaws, local administrative units were given fiscal powers and authorities which define the scope and nature of their expenditures and sources of funding. Expenditures of local administrative units have been classified into two sections:

1. **Current Expenditures**: that include all management and operational expenses of the units such as salaries, wages, benefits to its employees, and operating expenses (goods, services and maintenance), subsidies and financial aid.
2. **Capital expenditures**: that include all funds spent in projects development in these units.

Sources of funding (Revenues) local administrative units' expenditures have been defined to include:

1. **Central Subsidy:** which is the fiscal support given by the central authority to the local authority and it includes two types:
   1. Central Current Subsidy: is given to cover all annual current expenditures (operational expenses and costs) of the local authority units according to annual indicative ceilings of expenditures for local authority In fiscal budgets preparation (Table 1), central authority pays all local authority's current expenditures (chapter 1,2 &3) in a form of central current support.

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| **Table 1: *Local Authority Budget Allocations (2012)*** | |  |  |  |  |
| **Operational Budget** | | | | | |
| **Expenditures** | |  | **Revenues** | | |
| Ch1: Compensation Of Employees | 331,246 |  | Ch1: Tax Revenues |  | 10,256 |
| Ch2: Use of goods and services | 29,067 |  | Chapter 2: Grants |  | 50,977 |
| Ch3: Subsidies, Grants And Social Benefits | 434 |  | Central Capital Subsidy | 15,000 |  |
|  |  |  | Share Of Joint public Revenues | 17,968 |  |
| **Sub-Total of Operational Expenditures** | **360,746** |  | Joint Revenues | 18,009 |  |
| Operational Surplus **(A)** | 61,233 |  | Ch3: Income From Properties, Sales Of Goods And Services | | - |
|  |  |  | Operational Surplus: Ch1+Ch2+Ch3 **(A)** | | 61,233 |
|  |  |  | Ch2: Grants (Central Current Subsidy) | | **360,746** |
| **Total Operational Expenditures** | **421,979** |  | **Total Operational Revenues** | | **421,979** |
| **Transactions in Non-Financial Assets** | | | | | |
| Ch4 :Acquisition Of Non-Financial Assets | 70,037 |  | Operational Surplus **(A)** | | 61,233 |
|  |  |  | Ch4 :Acquisition Of Non-Financial Assets | | 75 |
|  |  |  | **Sub-Total** | | **61,308** |
|  |  |  | Add: the Deficit in Ch4 |  | 8,728 |
| **Total Transactions Expenditures** | **70,037** |  | **Total Transactions Revenues** | | **70,037** |
| **Transactions in Financial Commitment (Financing)** | | | | | |
| Cash Deficit | 8,728 |  | Changes in Cash and Local Deposits (+) | | 8,728 |
| **Total Expenditures** | **430,783** |  | **Total Revenues and Grants** |  | **430,783** |

* 1. Central Capital Subsidy: is given to support investment projects in local authority units (Chapter 4 of the budget). In budgets preparation, local authority units propose their capital expenditure plans whose fund allocations should be in principle derived from the units' ability to raise local revenues. Deficits in capital expenditure plans are allocated in each fiscal budget by the central authority in which the Ministry of Finance proposes an extent of the support every year in a coordination with the Ministry of Local Administration and the Ministry of Planning and International Cooperation before the approval of local authority annual fiscal budgets. The allocations of capital functional expenditures by local authority on health, education, economic affairs, social protection, environmental protection, or housing affairs are proposed and approved in line with the government annual Public Investment Program (PIP) and the country's development plans. Local capital expenditures (local investment projects) are considered independent from central authority and administered and managed solely by the heads of local authority units (governors and heads of districts).

1. **Joint Public Revenues:** which are:
   1. Charges imposed on air and sea travel tickets
   2. (30%) of annual revenues of the following three funds in which expending these revenues must be in accordance to the purposes for which the funds were established:
      * Roads and Bridges Maintenance Fund
      * Agricultural and Fishery Production Encouragement Fund
      * Young People's Welfare, Youth and Sports Fund
   3. Value-Added Tax (VAT) on mobile phone consumption
2. **Local Authority Revenues:** which are divided into two sources as follows:
   1. Local revenues collected by districts; to be used for their benefits. ***There are over 27 taxes and fees*** that districts have a full authority to collect such as:
      * (50%) of the proceeds of various kinds of Zakat ( Charity, Alms)
      * Fees on Advertisements and commercial ads
      * Fees and taxes on movie tickets, festivals and sporting events and other entertainment activities
      * Fees on Building permits
      * Fees on new shops' opening
      * Fees on official motorization of documents and contracts
      * Fees on drilling sewage tanks
      * Added fees on the fees for service in slaughterhouses and meat and fish markets
      * Fees on civil services and civil registry services
   2. Shared revenues at the governorate level. They are revenues collected by districts for the benefits of the governorate as a whole. ***There are 28 taxes and fees*** such as:

* (50%) of the proceeds of various kinds of Zakat (Charity, Alms)
* Tax payable on real estate rents
* Sales Tax on Qat
* Enlisting fee sin the commercial register
* Driving license fees
* Fees on the conduct of permits and transportation
* Fees on ownership transfers of transporting vehicles
* Fines for traffic violations
* Fees on health and medical services
* Fees on various kind of health certifications

Article (124 / b) of the Local Government Law, states the distribution ratios of shared revenues at the local level in the following manners:

* (25%) goes to the district that collects the revenue
* (25%) goes to the governorate for its activity
* (50%) is distributed equally among the rest of districts of the governorate

Article (124 / c) defines the basis and criteria for the distribution of the central capital subsidy and the joint public revenue according to:

* Population density
* Administrative units' resources abundance or scarcity
* The level of economic and social growth and relative deprivation
* Local authority's efficient performance
* The efficiency and effectiveness in revenue collection and expending
* Any other basis or criteria set by the Council of Ministers

**Central Authority**

With regards to the rest of the State's own resources, they are regarded as central resources, including:

1. Tax on wages and salaries for workers in the state administration and the public and joint sectors.
2. Tax on income from real estate's dispositions and sales
3. Tax on corporate income and projects (corporate profits and projects).
4. General tax on sales of goods and services (with the exception of Qat sales tax, which is considered joint public revenues)
5. Tax on vehicles
6. Fees on import and export licenses
7. Fees on communication and telecommunication devices that have frequency
8. Taxes on international trade and transactions
9. Government's share of public establishments' profit
10. The proceeds of natural resources such as:
    1. Oil and gas revenues
    2. Fisheries sales revenue
11. Fees on license plates of transporting vehicles
12. Consular fees (Yemen's embassies in foreign countries)
13. The sales proceeds of goods and services offered by the headquarters of ministries and agencies
14. The proceeds of fines and penalties imposed on employees in the central authority
15. The sales of non financial assets owned by the central authority such as furniture and buildings

Regarding the borrowing, it is not permissible for the local authority to borrow either locally or externally to finance its budget. It cannot also enter into any financing agreements to fund its programs that are listed in their budgets from loans or external grants. External borrowing comes within the central authority' framework and powers only. The current fiscal system is based on giving power to local authority to manage its internal affairs (i.e. education, health, roads, etc.) in light of the regulations and public polices imposed by the central authority and under its control.

**Financial Analysis of Fiscal Budgets (2007 - 2012):**

1. **Functional Classifications**
2. **Typical Classifications**
3. **Local Authority Budget**
4. **Functional Classifications:**

According to the functional classifications of the fiscal budgets, Yemen spends on a 5-year historical average 62% of total expending on General Public Services (20%), Defense (15%) and Economic Affairs (27%). Whereas spending on Environmental Protection, Health, Education and Social Protection combines account for 24% of total expenditures.

General Public Services include most line ministries and central government institutions such as the Presidential Office, the Parliament, the Shora Council, Ministry of Finance and the Cabinet (See Appendix for Functions Breakdown). The major expenditure items in this category are the central subsidies to local authority (34% of General Public Services) and the Interest Subsidies, which account for 37% of General Public Services or 8.81% of total expending and has been growing at 33.45% since 2007.

While interest payments are increasing dramatically, debt repayments seem to account for only 1% of total spending and growing at less than 14%. By comparing the weighted averages of these two items (their growth rates and shares of total expending), we will find that interest payments are 16 times more than debt repayment. This finding is a clear indication that the Yemeni government is reluctant to have a specific public debt policy to reduce the growing burden of interest payments.

Spending on defense has an average rate of 15% of total expending and growth at an average rate of 2% despite the recent general security challenges in 2010 and 2011. Economic Affairs includes seven sub-economic categories in which Fuel & Energy represent 96% of total spending on Economic Affairs. This is due to the petroleum subsidies, which account for 88% of total spending on Economic Affairs and growing at 7% within this category (or 24% of total spending). The share of the petroleum subsidy within the category of “Economic Affairs” has increased dramatically over the past years despite (see the following table).

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** |
| **Economic Affairs** | 473480 | 827244 | 496041 | 666445 | 589941 | 389034 |
| **Petroleum Subsidies Share** | 85% | 92% | 79% | 84% | 91% | 98% |

This expansion of cost for the petroleum subsidy comes at the expense of other sectors. For example, fiscal resources for social protection and debt repayment have remained fairly low in comparison to the increasing share of petroleum subsidies. Social Protection spending have been less than 3% of total spending except for 2012, when spending on Social Protection accounted for 20% of total expending or 907% increase from previous year (See Table 2).

The central and local authorities differ in their priorities and average spending as it show in the following table and chart. Local authority spends 67% of its fiscal budgets on educations and 12% on health in form of salaries and wages payments, which come under Chapter 1 "Compensation of Employees". Local Authority allocates 77% of its budget to fund this chapter (See Local Authority Budget).

|  |  |  |
| --- | --- | --- |
| **Central Authority Spending** | % of Total Expending | Growth Rate |
| General Public Services of which: | 34% | 9% |
| Central Subsidies \*\*\* | 15% | 11% |
| Economic Affairs | 27% | -6% |
| Defense | 15% | 2% |
| **Local Authority Spending** |  |  |
| Education | 67% | 11% |
| Health | 12% | 9% |

Central authority assumes the payments for prime mutual services and benefits between central and local beneficiaries. Spending on Petroleum subsidies, Interest Payments, Defense and centrally owned units with local benefits (i.e. universities and hospitals) is considered mutual public spending and comes under the responsibility of central authority. As a result, central authority spends 91% of total spending on these mutual services and benefits.

**Table 2: Functional Classifications of Expenditures by Main Groups (In Millions of YR)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Year Function** | **Actual Expenditures** | | | | | | |  | | **% of Total Expenditures** | | | | | | | | | | | | | | | | |
| **2007** | **2008** | **2009** | **2010** | **2011** | **\*\*2012** | | **Growth Rate** | | **2007** | **2008** | | **2009** | | | **2010** | | **2011** | | | **\*\*2012** | | | **Average %** | | | |
| Total\*\*\* | Total\*\*\* | Total\*\*\* | Total\*\*\* | Total\*\*\* | Total\*\*\* | | Total\*\*\* | Total\*\*\* | | Total\*\*\* | | | Total\*\*\* | | Total\*\*\* | | | Total\*\*\* | | |
| **General Public Services of which:** | 416475 | 452921 | 331865 | 382850 | 410322 | 613127 | | **8%** | | 24% | 20% | | 18% | | | 18% | | 20% | | | 23% | | | **20%** | | | |
| **Central Subsidies \*\*\*** | 0 | 0 | 0 | 0 | 0 | 0 | |  | |  |  | |  | | |  | |  | | |  | | |  | | | |
| **Defense** | 272806 | 297136 | 288172 | 317957 | 344674 | 308411 | | **2%** | | 16% | 13% | | 16% | | | 15% | | 16% | | | 12% | | | **15%** | | | | |
| **Regulation and Public Security** | 116140 | 132451 | 129818 | 137395 | 161403 | 167163 | | **8%** | | 7% | 6% | | 7% | | | 6% | | 8% | | | 6% | | | **7%** | | | | |
| **Economic Affairs** | 473480 | 827244 | 496041 | 666445 | 589941 | 389034 | | **-4%** | | 27% | 37% | | 27% | | | 32% | | 28% | | | 15% | | | **27%** | | | | |
| **Environment Protection** | 30178 | 26326 | 29406 | 27403 | 3208 | 14667 | | **-13%** | | 2% | 1% | | 2% | | | 1% | | 0% | | | 1% | | | **1%** | | | | |
| **Housing Affairs and Public Facilities** | 89713 | 101817 | 103178 | 109489 | 63963 | 32861 | | **-18%** | | 5% | 5% | | 6% | | | 5% | | 3% | | | 1% | | | **4%** | | | | |
| **Health** | 59335 | 70172 | 74786 | 76945 | 77347 | 121666 | | **15%** | | 3% | 3% | | 4% | | | 4% | | 4% | | | 5% | | | **4%** | | | | |
| **Entertainment ,Cultural & Religious** | 20296 | 22570 | 23378 | 23986 | 19308 | 35624 | | **12%** | | 1% | 1% | | 1% | | | 1% | | 1% | | | 1% | | | **1%** | | | | |
| **Education** | 251141 | 291715 | 301586 | 298092 | 334456 | 414589 | | **11%** | | 14% | 13% | | 16% | | | 14% | | 16% | | | 16% | | | **15%** | | | | |
| **Social Protection** | 4194 | 5123 | 47912 | 49789 | 53158 | 535464 | | **164%** | | 0% | 0% | | 3% | | | 2% | | 3% | | | 20% | | | **5%** | | | | |
| **Total Expenditures (according to functional classification)** | 1733758 | 2227475 | 1826142 | 2090351 | 2057780 | 2632606 | | **9%** | | 99% | 99% | | 99% | | | 99% | | 98% | | | 98% | | | **99%** | | | | |
| **Debt Repayment** | 21024 | 20691 | 21818 | 25077 | 39572 | 40134 | | **14%** | | 1% | 1% | | 1% | | | 1% | | 2% | | | 2% | | | **1%** | | | | |
| **Grand Total of Expenditures** | **1754782** | **2248166** | **1847960** | **2115428** | **2097352** | **2672740** | | **9%** | | 100% | 100% | | 100% | | | 100% | | 100% | | | 100% | | | **100%** | | | | |
| **( \*\* )Budget Data .** |  |  |  |  | | | | | | | | | |  | | |  | | |  | | |  | |  | | |  | | |  | |  | |  | |  |
| **(\*\*\*) To avoid Duplication, the Expenditures Grand total = the Central Authority Expenditures + Local Authority Expenditures - the Capital and Current Central Subsidies.** | | | | | | |  | |  | | |  |  | |  | | | |  | | |  | |  | |  | | | |  | |  | |  | |

Due to data limitation, it is quite difficult to estimate governorates' shares of these services and benefits. The main source for Petroleum subsidies should come from the Yemen Petroleum Company (YPC), which is responsible of selling and distributing fuel products. Unfortunately, YPC does not have data on governorates' consumption of fuel products because its local distribution outlets serve multi governorates and for private and public sectors combined. Interest payments also cannot be broken down per government spending because all public domestic debt are directly related to deficit financing and not related to specific expenditures or programs.

1. **Typical Classifications:**

Since 2007, Yemen fiscal budgets have maintained an irregular growth especially in 2009 and 2011. Total revenues and Grants has a 5-year growth rate of (8.2%), total expending (7.4%) and fiscal deficits (3.2%). From Table 3, budget items in US dollars have growth rates less than the growth rates in Yemeni Riyals by 1.6% across all items. The escalating fiscal deficits are due to the shortfall of revenues to fund expenditures. Total revenues finance 82% of total expenditures (a 5-year historical average rate) and growing at a pace greater than total expenditures by only 0.9%.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Table 3:***Overview of Fiscal Budgets*** | | | | |  |  |  |
| (In millions) | | | | |  |  |  |
| **In YR** | **2007** | **2008** | **2009** | **2010** | **2011** | **2012\*** | **Growth Rate** |
| **Total Revenues And Grants** | 1429017 | 1993251 | 1306151 | 1812385 | 1745576 | 2124004 | **8.2%** |
| **Total Expending** | 1754782 | 2248166 | 1847960 | 2115428 | 2097352 | 2504427 | **7.4%** |
| **Surplus/Deficit** | **-325765** | **-254915** | **-541809** | **-303043** | **-351776** | **-380423** | **3.2%** |
|  |  |  |  |  |  |  |  |
| **Annual Inflation Rate** | 9.64 | 14.47 | -10.06 | 10.54 | 14.08 | 7.8 | **-4.2%** |
| **CBY Average Annual Exchange Rate (USD to YR)** | 198.95 | 199.78 | 202.85 | 219.59 | 213.8 | 214.35 | **1.5%** |
|  |  |  |  |  |  |  |  |
| **In USD** | **2007** | **2008** | **2009** | **2010** | **2011** | **2012\*** | **Growth Rate** |
| **Total Revenues And Grants** | $ 7,183 | $ 9,977 | $ 6,439 | $ 8,253 | $ 8,165 | $ 9,909 | **6.6%** |
| **Total Expending** | $ 8,820 | $ 11,253 | $ 9,110 | $ 9,634 | $ 9,810 | $ 11,684 | **5.8%** |
| **Surplus/Deficit** | $ -1,637 | $ -1,276 | $ -2,671 | $ -1,380 | $ -1,645 | $ -1,775 | **1.6%** |
| (\*) Initial Actual. Sources: CBY (2013), MoF (2013) and CSO (2013) | | | |  |  |  |  |

The Yemeni fiscal budget is dominated by specific budget items both in revenues and expenditures, as it shown in the below table. The major items in expenditures, which compose 82% of total expenditures are: a) Subsidies, Grants and Social Benefits, b) Wages and Salaries and c) Use of Goods and Services. While Tax and Oil revenues make up 86% of total revenues. The remaining 14% of total revenues and grants comes from Other Non-Tax Current Revenues (11%) and Capital Revenues and Grants (3%).

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **01 - Public Revenues and Grants** | | | | | **% of Total Revenues & Grants** | **5-Year Growth Rate** |
|
| **I :** | **Total Current Revenues** | | | | **97.0%** | **6%** |
|  | 01 | Current Revenues | | | 97.0% | 6% |
|  |  | Tax Revenues | | | 24% | 10% |
|  |  |  | 01 | Central Tax Revenues | 23.2% | 11% |
|  |  |  | 02 | Local Tax Revenues | 0.9% | -1% |
|  |  | Oil and Gas Revenues | | | 61.4% | 3% |
|  |  |  | 01 | Exported Crude Oil | 35.1% | 3% |
|  |  |  | 02 | Domestic Oil Revenues | 24.8% | 9% |
|  |  |  | 03 | Gas Exports | 0.8% | -11% |
|  |  |  | 04 | Domestic Gas Sales | 1.5% | 27% |
|  |  | Other Non-Tax Current Revenues | | | 11% | 15% |
|  | 02 | Current Revenues & Transfers | | | 0.0% | 0% |
| **II :** | **Capital Revenues And Grants** | | | | **3.0%** | **19%** |
| **Total Revenues & Grants** | | | | | **100%** | **8%** |
| **02 - Public Expenditures** | | | | | **% of Total Expending** | **5-Year Growth Rate** |
| **1** | **Compensation Of Employees** | | | | **30.1%** | **11%** |
|  | 01 | Salaries and Wages | | | 28.5% | 11% |
| **1** | 02 | Social Contributions | | | 1.6% | 13% |
| **2** | **Use of goods and services** | | | | **19.0%** | **17%** |
|  | 01 | Goods and Services | | | 8.8% | 6% |
|  | 03 | Interest Payments | | | 8.8% | 33% |
| **3** | **Subsidies, Grants And Social Benefits** | | | | **32.7%** | **3%** |
|  | **01** | **Cash Subsidies** | | | 25.7% | 0% |
| **3** | **03** | **Social Benefits** | | | 17.5% | 16% |
| **XX** | **Unclassified Expenditures** | | | | **1.6%** | **13%** |
| **4** | **Acquisition of Non-Financial Assets** | | | | **12.2%** | **-10%** |
| **5** | **Acquisition Of Financial Assets & Repayment Of Liabilities** | | | | **4.5%** | **8%** |
| **Total Expending** | | | | | **100%** | **7%** |

In order for the GoY to eradicate its mounting fiscal deficits by 2017 for instance, total revenues have either to grow by 11% annually or total expenditures have to grow at a reduced rate of 4% annually.

**Expenditures**

There have been three main chapters that compose on a historical average 82% of total expending and which are growing at a worrying rate. Table 4 summarizes the percentages and the annual growth rates of these items.

|  |  |  |
| --- | --- | --- |
| Table 4: ***Main Expenditure items' Growth and Allocation*** | | |
| **Item (Chapter)** | **Average % of Total Expending** | **Annual Growth Rate** |
| Compensation Of Employees | 30% | 11.17% |
| Use of goods and services | 19% | 17.46% |
| Subsidies, Grants And Social Benefits | 33% | 3.21% |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| ***Shares of Expenditures Per Chapters*** |  |  |  |  |  |  |  |
| **Total Expending by Chapter** | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** | **Historical Average** |
| Compensation Of Employees | 28% | 26% | 31% | 28% | 34% | 34% | 30% |
| Use of goods and services | 17% | 14% | 18% | 18% | 20% | 27% | 19% |
| Subsidies, Grants And Social Benefits | 30% | 42% | 30% | 35% | 34% | 25% | 33% |
| Unclassified Expenditures | 1% | 1% | 2% | 2% | 2% | 2% | 2% |
| Acquisition Of Non-Financial Assets | 18% | 13% | 15% | 13% | 7% | 7% | 12% |
| Acquisition Of Financial Assets& Repayment Of Liabilities | 5% | 4% | 5% | 4% | 3% | 5% | 4% |
|  |  |  |  |  |  |  |  |
| **Total Expending** | **100%** | **100%** | **100%** | **100%** | **100%** | **100%** | **100%** |

**I) Compensation of Employees Chapter**: consists of two sub-chapter: a) Salaries and Wages and b) Social Contribution. The sub-chapter "Salaries and Wages" makes up 95% of total Compensation of Employees. As shown in Table 3, this chapter has been increasing since 2007 with annual growth rate of 11%. In 2012, the MoF announced that the total number of government employees who receives a payroll is about 1.2 million for an estimated bill of $3.89billion or YR 836.7 billion in which 91% of the total Salaries and Wages accounts for basic salaries (62%) and unallocated expenditures (29%). The remaining 9% is mainly composed of Allowances (6%) and Bonuses and Overtime (2%). The 29% Unallocated Expenditures is the total sum of unclassified Salaries and Wages for Defense and Political Security. Further disclosures (classification breakdowns) of this budget item is not permissible according to the financial law and regulations.

Basic Salaries are centrally imposed by the MoCSI and neither central agencies nor local units can amend basic salaries. Thus, the total cost of basic salaries can be simply estimated by knowing the number of employees and their employment rankings in each central, local or public unit. However, the remaining sub-items (Temporary Contractual Salaries & Wages, Bonuses & Overtime, Allowances and Benefits in Kind) are subject to a minimal oversight and differ greatly among line ministries. For instance, bonus and allowances payments in the headquarters of some line ministries such as the MoF can be greater than basic salaries set by the MoCSI. This is why payrolls vary among line ministries and even among central and regional offices within a same ministry or an agency.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| ***\*Composition of Salaries and Wages (in millions of YR)*** | | | | | |
| **1** | **Compensation Of Employees** | | | **886,287** |  |
|  | 01 | Salaries and Wages | | 836,700 |  |
|  |  | 01 | Basic Salaries | 522,408.8 | 62% |
|  |  | 02 | Temporary Contractual Salaries and Wages | 9,873.4 | 1% |
|  |  | 03 | Bonuses and overtime | 14,516.7 | 2% |
|  |  | 04 | Allowances | 48,719.3 | 6% |
|  |  | 05 | Benefit in Kind | 358.1 | 0% |
|  |  | Unallocated expenditures | | 240,823.8 | 29% |
|  | 02 | Social Contributions | | 49,587 |  |

**\*As of 2012 Fiscal Budget**

As stated earlier, central Authority assumes the responsibility to finance all central and local current expenditures in which it pays directly 57% of the total amount for wages and salaries, mainly to employees in Sana'a city while local authority pays the remaining 43% via a central current subsidy. This also suggests that local authority has an estimated workforce of 516,000 employees (mainly in education sector)while central authority has 684,000 employees (mainly in the security and defense sectors). According to the Local Authority Law of 2000, local employees are under the direction of local authorities' heads and subject to a minimal control and administration by the central authority. Government employment starts with the MoCSI, which hires public servants based on the needs of central and local of government entities. If the new recruits work in the headquarter of a central department, they will be under the direction of the department's head but if they work in regional offices such as schools, universities, line ministries' regional offices, they will be under the direction of the local authorities' heads (governors).

The issue of ghost workers still persists in Yemen despites the recent reforms in the Civil Services and Insurance Ministry (MoCSI). The partial compliance of the Ministry of Defense and the Ministry of the Interior to the "Finger Print" scheme, which has been proposed by the MoCSI is considered the major reason why the problem is not being successfully addressed. There has been no data or reports about the size of ghost workers in the recent years.The MoCSI's Finger Print initiative has discovered over 40,000 cases of job duplication in the education sector alone and been able to reduce job duplication significantly in other sectors.

**II) Use of Goods and Services Chapter:** includes five sub-chapters. The significant sub-chapters as shown in Table 5 are *Goods and Services* and *Interest Payments* which both compose 92% of total Use of Goods and Services. Local authority's revenues seem to fund 6.43% of total Use of Goods and Services, mainly for Goods and Services while central authority funds the remaining 93.57% of total Use of Goods and Services. The significant finding in this budget chapter is the astonishing growth rate of Interest Payments (Sub-chapter).

|  |  |  |  |
| --- | --- | --- | --- |
| **Percentage of Local and Central Authorities (5-Year Averages)** | | |  |
|  | **Local** | **Central** | **Total** |
| **Use of goods and services** | 6.43% | 93.57% | 100% |

Table 5:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** | **average** |
| **Goods And Services** | **56%** | **52%** | **54%** | **51%** | **40%** | **33%** | **48%** |
| Maintenance | 12% | 8% | 8% | 7% | 6% | 5% | 8% |
| **Interest Payments** | **33%** | **40%** | **38%** | **42%** | **54%** | **62%** | **45%** |
| Consumption Of Fixed Capital | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| Property Expense Other Than Interest | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
|  |  |  |  |  |  |  |  |
| Total Use of Goods and Services | 100% | 100% | 100% | 100% | 100% | 100% | 100% |

Interest Payments has been increasing by 33.45% annually since 2007 and represent 45% of total Use of Goods and Services and 8.81% (a 5-year average) of Total Expending. In 2012, Interest Payments alone were accounted for more than 16% of total Expending. The main reasons for the recent increases in the Interest Payments are the recent reliance on the issuance of treasury bills to finance the fiscal deficits and the high interest rates (as much as 23%) that are attached with these T-bills. In 2013, T-bills interest rates were reduced to 17% with an annual inflation rate of 7.8% and real interest rate of %6.2 (nominal interest rates [14%] minus inflation rate [7.8%]). Although Interest Payments are considered mutual expenditures between local and central authorities, the central authority assumes the responsibility of funding these expenditures.

**III) Subsidies, Grants and Social Benefits Chapter:** consists of four sub-chapters in which Cash Subsidies and Social Benefits make up 95% of total Subsidies, Grants and Social Benefits. Cash Subsidies item is 100% centrally controlled and it represents primarily the total bill that GoY endures as subsidies for fuel products and direct support to line ministries (i.e. Ministry of Electricity). In 2012, Cash Subsidies were $1.959 billion. This sub-chapter represents (on a 5-year historical average) 26% of total Expending and a historical growth rates of -0.44%.Under Cash Subsidies comes Petroleum subsidies and Electricity Subsidies in which Petroleum Subsidies account for 99% of total Cash Subsidies (or 24% of total expending). The 5-year historical negative growth rate was due to sharp declines of 47% and 26% in 2009 and 2012 respectively due primarily to a series of price increases in the subsidized fuel products by the GoY and to the declines in global prices of crude oil in those years.

Table 6: ***Percentages of Total Subsidies, Grants and Social benefits***

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** | **average** |
| **Cash Subsidies** | **81%** | **84%** | **75.6%** | **80%** | **79%** | **67%** | **78%** |
| Grants | 0.14% | 0.08% | 0.2% | 0% | 0% | 0% | 0% |
| **Social Benefits** | **15%** | **12%** | **19.5%** | **16%** | **17%** | **26%** | **18%** |
| Other Cash Subsidies & Transfers | 5% | 4% | 4.7% | 4% | 3% | 6% | 4% |
|  |  |  |  |  |  |  |  |
| **Total Subsidies, Grants And Social Benefits** | **100%** | **100%** | **100%** | **100%** | **100%** | **100%** | **100%** |

On Average, fuel products subsidies have total about $2.5 billion per year and are forecast at $1.7billion for 2013 with diesel and fuel oil for electricity accounting for 52% of the total subsidies and off- & on-road diesel accounting for 29% (See Fuel Subsidies Calculation for 2013)

**Revenues**

On a 5-year average, central authority collects 98.4% of total Revenues and Grants whereas local authority collects 1.6%. As shown in Table 6, Oil and Tax revenues make up 86% of total revenues and grants and the remaining revenues come from Other Non-Tax and Capital revenues such as Government Share of Profit Surplus and External Financing revenues.

Table 6: ***Revenues Allocations***

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Item Year** | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** | **Average % of Total Revenue** |
|
|
| **I : Total Current Revenues** | **98.94%** | **99.25%** | **97.85%** | **97.93%** | **97.91%** | **90.11%** | 97.00% |
| **Current Revenues** | 98.94% | 99.25% | 97.85% | 97.93% | 97.91% | 90.11% | 97.00% |
| **Tax Revenues** | **22.07%** | **18.63%** | **31.36%** | **25.09%** | **21.81%** | **24.26%** | **23.87%** |
| **Oil and Gas Revenues** | **66.33%** | **73.08%** | **54.80%** | **60.15%** | **67.94%** | **51.36%** | **62.28%** |
| **Other Non-Tax Current Revenues** | 10.54% | 7.54% | 11.69% | 12.69% | 8.15% | 14.48% | 10.85% |
| **Current Revenues & Transfers** | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
|  |  |  |  |  |  |  |  |
| **II : Capital Revenues And Grants Of which:** | 1.06% | 0.75% | 2.15% | 1.89% | 2.09% | 9.89% | 2.97% |
| **Domestic Borrowing and Bonds** | 0.00% | 0.00% | 0.00% | 0.18% | 0.00% | 0.00% | 0.03% |
| **Total Revenues And Grants** | **100.00%** | **100.00%** | **100.00%** | **100.00%** | **100.00%** | **100.00%** | **100.00%** |

**I) Tax Revenues**

On a5-year historical average, tax revenues represent 24% of total Revenues and Grants or 6.4% of GDP with an average growth rate of 11%. Central authority collects an average 96% of total tax revenues and growing at 11% annually. The remaining 4% of Tax revenues comes from local authority. All revenues from taxes (direct and indirect tax revenues) are NOT linked to fund certain expenditures or programs. All taxes are considered general purpose taxes.

The major types of taxes are: a) Income Taxes (57% of total tax revenues), which mainly come from payroll and profit taxes (direct taxes); and b) Sales Taxes (41% of total tax revenues)which are considered indirect taxes and includes various levies such as Customs Duties, General Sales Tax (GST) on imports and domestic excise(i.e. 90% sales tax on domestic cigarettes and 15% sales tax on telephone services).

|  |  |  |  |
| --- | --- | --- | --- |
| Table 7:***Average Allocations of Taxes and their Growth Rates*** | | |  |
| **Tax Item** | | **Average % of Total Tax** | **5-Year Growth Rate** |
| **Total Income Taxes** | | **57%** | **12%** |
|  | **Payroll and Wages tax** | 24% | 8% |
|  | **Payroll and Wages tax (XXX)** | 6% | 8% |
|  | **Payroll and wages tax (XXX members)** | 6% | 2% |
|  | Profit tax (XXXX) | 8% | 27% |
|  | Profit Tax on Financial Companies | 5% | 19% |
|  | Profits Tax on Individuals | 6% | 11% |
| **Total Sales Taxes** | | **41%** | **10%** |
|  | Fuel sales tax | 7% | 11% |
|  | Sales taxes on local cigarettes | 9% | 11% |
|  | Industrial products sales tax | 4% | 7% |
|  | GST on imported goods | 18% | 10% |
|  | Sales tax on telephone services | 3% | 11% |
| **Total Other Taxes** | | **2%** | **0%** |
|  |  |  |  |
| **Total Tax Revenues** | | 100% | 11% |

Since 2007, local authority has been able to collect an average 4% of total tax revenues in form of direct and indirect taxes in which it represents 1% of total Revenues and Grants. Local Tax Revenues have a 5-year average growth rate of **negative 1.3%**, which is due mainly to the country political crisis of 2011 which caused local tax revenues to decline by 12% since then. Local Authority main tax revenues come from a) Zakat Taxes (73%), b) Goods and Services Taxes (19%) and c) Income Taxes (6%).

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Table 8: ***Local Authority Main Tax Revenues* (2012 Budget. In Millions of YR)** | | | | | | | | |  |
| **Governorate** | **Chapter 1: Tax Revenues** | | | | | | | | **Total** |
| **Zakat Revenues** | | **Income, Profit and Capital Gains Tax** | | **Taxes on Goods and Services** | | **Property Taxes** | |
| **YR** | **%** | **YR** | **%** | **YR** | **%** | **YR** | **%** |
| **Sana'a City** | 3,427 | 79% | 310 | 7% | 552 | 13% | 44.2 | 1% | 100% |
| **Sana'a Governorate** | 438.8 | 93% | 5 | 1% | 25 | 5% | 1.1 | 0% | 100% |
| **Aden** | 245.7 | 41% | 79 | 13% | 269 | 45% | 3.5 | 1% | 100% |
| **Taiz** | 542.0 | 66% | 50 | 6% | 209 | 25% | 20.8 | 3% | 100% |
| **Hudaidah** | 394.6 | 61% | 45 | 7% | 204 | 32% | 3.3 | 1% | 100% |
| **Hadhramot** | 142.0 | 36% | 43 | 11% | 178 | 45% | 35.05 | 9% | 100% |
| **Ibb** | 396.6 | 74% | 18 | 3% | 114 | 21% | 7.0 | 1% | 100% |
| **Abyan** | 36.0 | 43% | 6 | 8% | 40 | 48% | 1.4 | 2% | 100% |
| **Dhamar** | 307.3 | 83% | 14 | 4% | 44 | 12% | 3.5 | 1% | 100% |
| **Shabwah** | 17.9 | 48% | 4 | 10% | 16 | 41% | 0.3 | 1% | 100% |
| **Hajjah** | 372.9 | 84% | 27 | 6% | 45 | 10% | 0.1 | 0% | 100% |
| **AL-Baidha** | 207.1 | 78% | 9 | 3% | 48 | 18% | 0.6 | 0% | 100% |
| **Lahj** | 39.9 | 31% | 6 | 5% | 48 | 37% | 35.1 | 27% | 100% |
| **Sa'adah** | 242.6 | 91% | 4 | 1% | 18 | 7% | 1.0 | 0% | 100% |
| **AL-Mahweet** | 86.2 | 88% | 4 | 4% | 8 | 8% | 0.1 | 0% | 100% |
| **AL-Maharah** | 10.5 | 23% | 17 | 36% | 17 | 36% | 2.1 | 5% | 100% |
| **Ma'arib** | 52.9 | 63% | 7 | 9% | 23 | 27% | 0.9 | 1% | 100% |
| **AL-Jawf** | 18.6 | 86% | 1 | 3% | 2 | 11% | - | 0% | 100% |
| **Amran** | 322.1 | 89% | 6 | 2% | 30 | 8% | 3.5 | 1% | 100% |
| **AL-Dhalia'a** | 177.4 | 86% | 5 | 3% | 24 | 11% | 0.6 | 0% | 100% |
| **Raima** | 39.4 | 90% | 2 | 5% | 2 | 5% | 0.0 | 0% | 100% |
| **Total** | **7,518** | **73%** | **660** | **6%** | **1,914** | **19%** | **164** | **2%** | **100%** |

**GST In Yemen**

There have been several attempts to introduce GST in Yemen. A GST law was passed by parliament in January 2002. It envisaged that GST would be introduced on September 1, 2002. Introduction of the law was postponed to January 1, 2004 and postponed again pending changes to the law. An amended GST law took effect on July 18, 2005. This replaced a tax on production, consumption and services (TPCS). Introduction of the amended GST was deferred to January 1, 2007. This postponement led to a set of interim taxing arrangements being put in place which included all importers paying GST at 5% plus a further 3% at importation intended to represent the tax on value added after import. The amended GST law was repeatedly postponed after 2007 due (largely) to pressures from the business community. On April 20, 2010, by Cabinet decree No. 113, the government decided to proceed with the full introduction of the amended GST law, though the precise timing was not specified. Implementation commenced on July 1, 2010.

As summarized in Table 8, there are 3,495 businesses registered for GST, including 886 entities that are voluntarily registered as they are below the mandatory turnover threshold of YRls 50 Million. It is assumed that mandatorily registered entities (2,609 businesses) represent less than 10% of those businesses in Yemen meeting the threshold requirement for mandatory registration.

Table 9: ***Taxpayers Registered for GST***

|  |  |  |  |
| --- | --- | --- | --- |
| **Sector** | **Above Registration threshold** | **Below Registration Threshold** | **Total** |
| **Industrial** | 296 | 16 | 312 |
| **Commercial** | 1819 | 269 | 2088 |
| **Services** | 494 | 601 | 1095 |
| **Total** | 2609 | 886 | 3495 |

Legitimately unregistered taxpayers (those below the 50 million YRls threshold) are taxed at 5% GST on imports at the border. Currently, the Yemeni Tax Authority (YTA) (through the Yemeni Customs Authority) is also charging an additional 5% GST on registered taxpayers who are not filing returns in lieu of value-add (given the very low filing rates, this applies to all non-filing large importers and virtually all medium registered importers). This arrangement is effectively a 10% final tax on imports, rather than a properly levied GST/VAT.

The revenue collected is likely to be much less than would be collected from applying GST to the full value added, particularly as it does nothing in respect of non-importers such as service providers. This arrangement of payment exclusively on imports effectively continues an approach applied from 2007, as an interim arrangement, before full GST implementation commenced in 2010. When full implementation was attempted, many business taxpayers expressed a desire to continue with this arrangement rather than comply with the full GST. Continuing this as a convenient and cheaper alternative (administratively and in revenue terms) by the YTA will work *against* getting full participation in the GST.

This 10% interim final tax on imports before full implementation is also responsible, in significant part, for a major GST excess credit position. Other contributing factors to this net excess credit position are:

* Evasion - understatement of taxable sales and overstatement of input credits.
* GST withheld on government contracts being accounted for as credits rather than advance payments of “output” tax on sales.

### World Bank (2010), Yemen's Central Financing Agency Report, p(16 & 9), stated that

### As in many countries, revenue and customs administration functions in Yemen are carried out by quasi-independent agencies – the Tax Authority and Customs Authority - under the supervision of the Minister of Finance. In the case of both Authorities, while they may be invited to comment upon proposals to change the tax and customs laws, and to submit revenue forecasts to the MoF, their main function is that of revenue collection. Both authorities are subject to the imposition of revenue targets set by the MoF in an effort by the latter to increase the level of revenue collected. The Customs Authority, for example, is charged with improving its customs valuations subject to duty, and cracking down on smuggling and corruption

* 1. Both the tax and customs authorities have scope for considerable efficiency improvements through simplified business processes, and more extensive use of automated practices. Tax and customs exemptions are a good case in point – these are currently paper-based, manual processes which require multiple approvals by the MoF. Encouragingly, some significant simplifications in the exemptions relating to capital investment are promised in the new investment law, which was approved during the mission’s visit to Sana’a. The rollout of AFMIS to both authorities would be helpful in improving the efficiency of their operations and the flow of financial reports. There is also scope for greater decision-making authority to be delegated to both agencies, for example, on staffing matters such as hiring, performance bonuses, and promotions.

By contrast to the mandate of the tax and customs authorities, much of the role of the Revenue Sector within the MoF is far from clear. The mission understands that its principal responsibility is to monitor revenue collection from agencies other than the tax and customs authorities. This includes reviewing the collection of oil and gas revenues through the MoO (in particular to ensure commitments due to the GoY in production sharing agreements are honored); and revenues from economic enterprises. The sector also authorizes the charging and collection of other minor taxes and fees, and handles some (minor) tax exemptions that are not administered by the tax authorities. In discussions with the mission, MoF officials acknowledged overlap in roles with other sectors in the MoF, such as the Economic Enterprises Sector, as well as the customs and tax Authorities.

### Tax policy

There is no single, dedicated unit within the MoF (or MoPIC) that is responsible for undertaking analytical work on tax policy issues. Indeed, in practice, little technical work appears to be done in this field on a systematic basis. Should issues arise on tax policy, the Minister of Finance, or the High Committee on the Budget, will usually request an appropriate body to undertake the required technical analysis and make recommendations. For example, recent work on revising the income law was carried out by the Tax Authority. In some cases, the World Bank or IMF, or a consulting company, would be asked to undertake an assessment. A similar situation arises in relation to the analysis of fiscal policy issues, such as long-term fiscal and debt sustainability analysis, where there is also no dedicated unit within the MoF that produces reports and policy advice on a regular basis in this critically important area.

**II) Oil and Gas Revenues:** represent 61% of total Revenues and Grants and have a historical growth rate of 3%. The sales of exported crude oil and domestic fuel products sales account for 96% of total Oil and Gas revenues or 60% of Total Revenues and Grants. As we can see from Table 10, the domestic sales and exports of Gas account on a historical average for 4% of total Oil and Gas revenues owing to the fact that the exports of Liquid Natural Gas (LNG) started in 2008 in small quantities at a contractual selling price less by a substantial margin than the international prices for LNG. In 2010, the Yemeni government negotiated the contractual selling price of Yemen's LNG with Korea Gas Corporation while LNG production increased. Consequently, revenues from gas exports in 2011increased dramatically from 2009 level. Domestic Gas revenues come from the sales of subsidized products of Liquid Propane Gas (LPG), which is imported by Yemen Gas Company (YGC) at international market prices. In 2012, domestic gas sales increased significantly due to the government increases in the selling price of LPG.

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Table 10***: Oil & Gas Revenues (in millions of YR)*** | | | | | | |  |  |  |  |
| **Item Year** | | | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** | **5-Year % Average of Total Revenues** | **5-Year Growth Rate** |
|  | **Oil and Gas Revenues** | | **947,829** | **1,456,723** | **715,800** | **1,090,073** | **1,186,009** | **1,090,993** | 61% | **3%** |
|  | 01 | Exported Crude Oil | 486,349 | 837,711 | 348,882 | 548,320 | 728,287 | 764,317 | 35% | 3% |
|  | 02 | Domestic Oil Revenues | 446,977 | 600,007 | 347,350 | 489,873 | 393,052 | 243,220 | 25% | -11% |
|  |  | **Total Oil Revenues** | **933,326** | **1,437,718** | **696,232** | **1,038,193** | **1,121,339** | **1,007,537** | **60%** | **1.5%** |
|  | 03 | Gas Exports\* | - | - | 496 | 21,267 | 38,475 | 34,142 | 1% | **\***27% |
|  | 04 | Domestic Gas Sales | 14,503 | 19,005 | 19,072 | 30,613 | 26,195 | 49,314 | 1% | 28% |
|  |  | **Total Gas Revenues** | **14,503** | **19,005** | **19,568** | **51,880** | **64,670** | **83,456** | **2%** | **42%** |
| **(\*) Gas Exports growth rate is based on 2010 to 2012** | | | | | | | | | | |

As of 2012, oil and gas revenues were $5 billion in which oil exports were $3.57 billion and domestic oil revenues were $1.13 billion (at exchange rate of 214.35 to US$). Oil Revenues have a 5-year growth rate of 1.5% while Gas revenues have a growth rate of 42%. The 1.5% average growth rate in Oil revenues was due to a sharp decline in Exported Crude Oil in 2009 because of the 36% decline in the international prices of crude oil in that year. Another factor contributing to the low growth rate of Oil revenues is the declines in Domestic Oil revenues. The events of 2011 affected the consumptions of structure, namely the repeated sabotage of the Marib Ras Issa pipelines, the roadblocks. The total consumption declined by16% in 2011 relative to 2010, with the largest decline in Diesel of close to 20%. Gasoline consumption on the other hand declined by 12%.

All proceeds from the production, sales and consumptions of oil products are controlled centrally by the central authority. Yemen oil & Gas corp. (YOGC) assumes the authority and the management of the following activities and government units:

* Supervision of the technical and financial control over the following subsidiary companies:
  + Aden Refinery Company (ARC)
  + Fuel Products Distribution Company (YPC)
  + Yemen Gas Company (YGC)
  + Yemen Investment Company for Oil and Minerals (YICOM)
  + Mareb Oil Refinery Company (MRC)
* Supplying the domestic marketing with oil products via YPC
* Refining the Yemeni crude oil through ARC and MRC
* Exporting Yemen's crude oil abroad through COMD
* Participating in the oil exploration and production operation through its Oil Investment department

YPC is a central unit which supervises the sales of fuel products domestically. YPC does not have data on fuel products consumption by governorates or by public sector because its filling stations serves multiple governorates for both private and public sector. Yemen's Petroleum Report includes all details related to the production, sales and consumption of oil products in Yemen.

#### External Financing

Yemen has not been aid dependent and aid has historically been less than 1% of GNP with the exception of the large grant of $3 billion, which Yemen received in 2012 from Saudi Arabia.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Table 11: |  |  |  |  |  |  |  |
| **In Millions** | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** | **4-year Growth Rate\*** |
| External Borrowing | $ 157 | $ 167 | $ 161 | $ 127 | $ 70 | **$ 412** | -18% |
| Foreign Grants | $ 74 | $ 71 | $ 136 | $ 156 | $ 170 | **$ 980** | 23% |
| **Total External Financing** | **$ 231** | **$ 238** | **$ 297** | **$ 283** | **$ 240** | **$ 1,392** | **0.9%** |
| **\*Excluding 2012** |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
| **% of GNP** | **2007** | **2008** | **2009** | **2010** | **2011** | **4-Year Average** |  |
| External Borrowing | 0.6% | 0.6% | 0.6% | 0.4% | 0.3% | 0.5% |  |
| Foreign Grants | 0.3% | 0.2% | 0.5% | 0.5% | 0.6% | 0.4% |  |
| **Total External Financing** | **0.9%** | **0.8%** | **1.1%** | **1.0%** | **0.9%** | **0.9%** |  |

1. **Local Authority Budget:**

The process of budget preparation for local authority starts at approving the budget ceilings for the operational budget to calculate the expected Central Current Subsidy to local authority (See Table 12). Then, all local authority's expected revenues are added and considered an Operational Surplus and added to the Total Operational Expenditures. To finance local authority's public investments and programs (Chapter 4 of the budget), local authority propose total expenditures that can be mainly financed by local revenues. A deficit in Chapter 4 is financed by Central Capital Subsidy as it shown in Table 12.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Table 12: *Local Authority Budget Allocations (2012)*** | |  |  |  |  |
| **Operational Budget** | | | | | |
| **Expenditures** | |  | **Revenues** | | |
| Ch1: Compensation Of Employees | 331,246 |  | Ch1: Tax Revenues |  | 10,256 |
| Ch2: Use of goods and services | 29,067 |  | Chapter 2: Grants |  | 50,977 |
| Ch3: Subsidies, Grants And Social Benefits | 434 |  | Central Capital Subsidy | 15,000 |  |
|  |  |  | Share Of Joint public Revenues | 17,968 |  |
| **Sub-Total of Operational Expenditures** | **360,746** |  | Joint Revenues | 18,009 |  |
| Operational Surplus **(A)** | 61,233 |  | Ch3: Income From Properties, Sales Of Goods And Services | | - |
|  |  |  | Operational Surplus: Ch1+Ch2+Ch3 **(A)** | | 61,233 |
|  |  |  | Ch2: Grants (Central Current Subsidy) | | **360,746** |
| **Total Operational Expenditures** | **421,979** |  | **Total Operational Revenues** | | **421,979** |
| **Transactions in Non-Financial Assets** | | | | | |
| Ch4 :Acquisition Of Non-Financial Assets | 70,037 |  | Operational Surplus **(A)** | | 61,233 |
|  |  |  | Ch4 :Acquisition Of Non-Financial Assets | | 75 |
|  |  |  | **Sub-Total** | | **61,308** |
|  |  |  | Add: the Deficit in Ch4 |  | 8,728 |
| **Total Transactions Expenditures** | **70,037** |  | **Total Transactions Revenues** | | **70,037** |
| **Transactions in Financial Commitment (Financing)** | | | | | |
| Cash Deficit | 8,728 |  | Changes in Cash and Local Deposits (+) | | 8,728 |
| **Total Expenditures** | **430,783** |  | **Total Revenues and Grants** |  | **430,783** |

Local Tax Revenues have a 5-year average growth rate of **negative 1.3%**, which is due mainly to the country political crisis of 2011 which caused local tax revenues to decline by 12% since then. Local Authority main tax revenues come from a) Zakat Taxes (73%), b) Goods and Services Taxes (19%) and c) Income Taxes (6%). From the below table, governorates vary in their revenue collection because of their specific geographic and demographic features, such as their population size and the size of agricultural lands and agricultural crops (i.e. Qat) in which Zakat taxes are being directly related to them.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **2012 Fiscal Budget According to the Economic Classifications** | | | |  |  |  |
| **Revenues** | | | | | | |
| **Governorate** | **Ch1: Tax Revenues** | **Ch2: Grants** | **Ch3: Income From Properties, Sales Of Goods And Services And Various Transfers** | **Ch4: Disposal of non-financial Assets** | **Ch5: Disposal of non-financial Assets and Deduction of Liabilities** | **Total Revenues &Grants** |
| **Sana'a City** | 4,333.0 | 35,496.5 | 1,272.1 | 20.0 | - | **41,122** |
| **Sana'a Governorate** | 469.7 | 19,288.2 | 260.0 | 48.7 | - | **20,067** |
| **Aden** | 596.9 | 25,599.4 | 1,078.1 | 1.1 | - | **27,275** |
| **Taiz** | 821.6 | 49,803.0 | 901.5 | 0.9 | - | **51,527** |
| **Hudaidah** | 646.2 | 31,025.6 | 389.8 | - | - | **32,062** |
| **Hadhramot** | 397.3 | 30,967.8 | 365.8 | 4.3 | - | **31,735** |
| **Ibb** | 534.9 | 35,016.8 | 507.9 | - | - | **36,060** |
| **Abyan** | 84.0 | 17,100.7 | 105.5 | - | - | **17,290** |
| **Dhamar** | 368.1 | 23,762.7 | 279.1 | - | - | **24,410** |
| **Shabwah** | 37.5 | 13,789.2 | 121.7 | - | - | **13,948** |
| **Hajjah** | 445.0 | 21,433.1 | 196.5 | - | - | **22,075** |
| **AL-Baidha** | 264.4 | 10,626.2 | 208.2 | 0.5 | - | **11,099** |
| **Lahj** | 129.3 | 21,922.0 | 145.4 | - | - | **22,197** |
| **Sa'adah** | 265.9 | 10,052.4 | 98.9 | - | - | **10,417** |
| **AL-Mahweet** | 98.5 | 11,203.8 | 83.2 | - | - | **11,386** |
| **AL-Maharah** | 45.7 | 4,201.3 | 59.9 | - | - | **4,307** |
| **Ma'arib** | 84.0 | 9,217.5 | 99.0 | - | - | **9,401** |
| **AL-Jawf** | 21.6 | 6,636.9 | 20.9 | - | - | **6,679** |
| **Amran** | 361.4 | 16,368.3 | 188.6 | - | - | **16,918** |
| **AL-Dhalia'a** | 206.9 | 10,599.4 | 182.1 | - | - | **10,988** |
| **Raima** | 43.9 | 7,612.3 | 92.3 | - | - | **7,749** |
| **Total** | **10,256.0** | **411,723.1** | **6,656** | **75.5** | **-** | **428,711.0** |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Expenditures** | | | | | | |
| **Governorate** | **Ch1: Compensation Of Employees** | **Ch2: Use of goods and services** | **Ch3: Subsidies, Grants And Social Benefits** | **Ch4 :Acquisition Of Non-Financial Assets** | **Ch5: Acquisition Of Financial Assets & Repayment Of Liabilities** | **Total Expending** |
| **Sana'a City** | 22,459 | 3,135 | 10 | 15,517 | - | **41,122** |
| **Sana'a Governorate** | 15,923 | 1,033 | 11 | 3,051 | - | **20,018** |
| **Aden** | 19,747 | 3,116 | 143 | 4,316 | - | **27,323** |
| **Taiz** | 43,252 | 2,132 | 21 | 6,121 | - | **51,526** |
| **Hudaidah** | 24,930 | 2,165 | 4 | 4,997 | - | **32,096** |
| **Hadhramot** | 24,114 | 4,588 | 87 | 2,944 | - | **31,732** |
| **Ibb** | 29,040 | 2,744 | 5 | 4,271 | - | **36,060** |
| **Abyan** | 14,998 | 608 | 20 | 1,669 | - | **17,295** |
| **Dhamar** | 19,930 | 1,435 | 6 | 3,038 | - | **24,410** |
| **Shabwah** | 11,793 | 644 | 30 | 1,482 | - | **13,948** |
| **Hajjah** | 17,733 | 997 | 2 | 4,229 | - | **22,962** |
| **AL-Baidha** | 8,148 | 869 | 5 | 2,077 | - | **11,099** |
| **Lahj** | 19,081 | 1,264 | 28 | 1,824 | - | **22,198** |
| **Sa'adah** | 7,851 | 540 | 7 | 3,008 | - | **11,407** |
| **AL-Mahweet** | 9,137 | 590 | 1 | 1,656 | - | **11,386** |
| **AL-Maharah** | 2,857 | 399 | 10 | 1,041 | - | **4,307** |
| **Ma'arib** | 7,175 | 849 | 8 | 1,455 | - | **9,487** |
| **AL-Jawf** | 5,070 | 322 | 5 | 1,333 | - | **6,730** |
| **Amran** | 13,795 | 685 | 3 | 2,459 | - | **16,942** |
| **AL-Dhalia'a** | 8,495 | 584 | 25 | 1,884 | - | **10,988** |
| **Raima** | 5,718 | 367 | - | 1,664 | - | **7,749** |
| **Total** | **331,246** | **29,067** | **434** | **70,037** | **-** | **430,783** |

As per the current Local Authority Law, local authority has the power and authorities to collect various revenues taxes and fees as well as sharing other central revenues (Joint Public Revenues). From Table 13, local tax, Customs and Zakat revenues represent 59% of total local revenues and the remaining 41% comes from Other Central Revenues such as the 30% annual revenue from Roads and Bridges Maintenance Fund, Agricultural and Fishery Production Encouragement Fund and Young People's Welfare, Youth and Sports Fund. Local authority also receive a 5% GST/VAT on mobile phone consumption. However, the 5% revenues from the GST are being collected centrally and distributed to governorates as Joint Public Revenues. The total GST/VAT on mobile phone consumption is 15% (5% to local authority and 10% to central authority).

|  |  |
| --- | --- |
| Table 8:***Local Authority Revenues Average Allocation*** |  |
| **Revenue Type** | **5-Year Average** |
|
| **1- Customs Authority Revenues** | 0.07% |
| **2- Tax Authority Revenues** | **15.84%** |
| **3- Zakat Revenues** | **43.45%** |
| **4- Other Central Revenues** | **36.40%** |
| **5- Change In Deposits Of Local Authorities** | 4.25% |
| **Total Of Local Revenues** | **100.00%** |

Total local revenues can only finance less than 10% of total local expending except for the City of Sana'a (30% of its total expending because of its population size and the government policy to have the headquarters of all private companies in the City of Sana'a). Although the current financial regulations allow local authority to raise more revenues from different sources, the historical data suggest weak local capacity to raise needed revenues. There are many factors influencing local authority' weak revenues collections among them are the general security of the country, the weak rule of the law, the widespread corruption, the reliance on central subsidies, the weak local capacity and the absence of local voice in decision-making process of fiscal policies. For detailed explanations of local taxes and governorates' collections, see appendix.

**Appendix**

|  |  |  |  |
| --- | --- | --- | --- |
| **Governorate** | **Population** | **Area (km2** | **Density (People/KM2)** |
| **Sana'a City** | 2,575,347 | 126 | 20,439 |
| **Sana'a Governorate** | 1,042,468 | 15,052 | 69 |
| **Aden** | 589,419 | 1,114 | 529 |
| **Taiz** | 2,817,696 | 12,605 | 224 |
| **Hudaidah** | 2,687,674 | 17,509 | 154 |
| **Hadhramot** | 1,263,754 | 191,737 | 7 |
| **Ibb** | 2,505,816 | 6,484 | 386 |
| **Abyan** | 764,342 | 21,939 | 35 |
| **Dhamar** | 1,645,436 | 9,495 | 173 |
| **Shabwah** | 546,467 | 47,728 | 11 |
| **Hajjah** | 1,811,394 | 10,141 | 179 |
| **AL-Baidha** | 660,105 | 11,193 | 59 |
| **Lahj** | 865,791 | 15,210 | 57 |
| **Sa'adah** | 887,482 | 15,022 | 59 |
| **AL-Mahweet** | 599,340 | 2,858 | 210 |
| **AL-Maharah** | 122,453 | 82,405 | 1 |
| **Ma'arib** | 291,403 | 20,023 | 15 |
| **AL-Jawf** | 534,408 | 30,620 | 17 |
| **Amran** | 967,634 | 9,587 | 101 |
| **AL-Dhalia'a** | 597,936 | 4,786 | 125 |
| **Raima** | 483,196 | 2,442 | 198 |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | | **Functions Breakdown with Average Shares and Growth Rates** | | | | | | | | **(1)** |  | |  | |  | | | **Function** | | **Government Units** | | **Average share** | | **Growth** | | | **General Public Services** | |  | | **34.24%** | | **8.82%** | | |  | | Presidential Office | | 0.92% | | 3.83% | | |  | | Consultative Council | | 0.09% | | 12.77% | | |  | | Parliament | | 0.23% | | 5.47% | | |  | | Ministry Of Legal Affairs | | 0.03% | | 25.61% | | |  | | Ministry Of Parliament and Consultative Councils | | 0.01% | | 222.89% | | |  | | Cabinet | | 0.20% | | 3.83% | | |  | | COCA | | 0.21% | | 7.66% | | |  | | Ministry Of Finance | | 0.41% | | 8.23% | | |  | | Central Allocation Of Which: | | 7.08% | | -26.05% | | |  | | Central Subsidies\*\*\* | | 14.85% | | 11.05% | | |  | | Interest Subsidies | | 8.81% | | 33.45% | | |  | | Customs Authority | | 0.25% | | 9.86% | | |  | | Tax Authority | | 0.32% | | 10.37% | | |  | | Ministry Of External Affairs | | 0.58% | | -0.20% | | |  | | Ministry Of Immigrants Affairs | | 0.02% | | 8.26% | | |  | | Ministry Of Human Rights | | 0.01% | | 4.55% | | |  | | Central Authority For Scientific Researches | | 0.00% | | -2.15% | | |  | | Yemeni Centre For Studies And Researches | | 0.01% | | 8.30% | | |  | | Ministry Of Civil Services & Insurance | | 0.19% | | -5.80% | | |  | | National Institute For Administrative Sciences | | 0.03% | | -1.32% | | |  | | Ministry of Planning and International Cooperation | | 0.68% | | -0.83% | | |  | | Central Statistics Organization | | 0.04% | | -2.53% | | |  | | State Property And Real State Authority | | 0.10% | | -9.44% | | |  | | National Centre Of Information | | 0.01% | | -4.55% | | |  | | National Centre Of Documents | | 0.01% | | -5.02% | | |  | | Supreme Committee Of Elections | | 0.03% | | 0.60% | | |  | | Civil Affairs And Records Authority | | 0.07% | | -20.80% | | |  | | Ministry Of Local Administration Of Which: | | 1.08% | | 10.03% | | |  | | Share Of General Joint Resources \*\*\* | | 0.00% | | 0.00% | | |  | | Supreme Committee For Administrative Divisions | | 0.00% | | 0.00% | | |  | | G. A. Of Developing Yemeni Islands | | 0.00% | | -100.00% | | |  | | Supreme Authority Tenders Control | | 0.01% | | 386.28% | | |  | | Supreme Committee For Tenders | | 0.01% | | -2.53% | | |  | | National Supreme Authority For Anti- Corruption | | 0.02% | | 11.01% | | |  | | General Authority for Marin And Aquatic Researches | | 0.01% | | 16.26% | |  |  |  |  |  | | --- | --- | --- | --- | | **(2)** |  |  |  | | **Function** | **Government Units** | **Average share** | **Growth** | | **Defense** |  | **14.77%** | **2.48%** | |  | Ministry Of Defense | 14.77% | 2.48% | | **Regulation & Public Security** |  | **6.66%** | **7.56%** | |  | Ministry Of Interior | 4.96% | 10.13% | |  | Immigration, Passport And Nationality Authority | 0.06% | -0.78% | |  | Judicial Authorities | 0.80% | 5.80% | |  | Prison Authority | 0.08% | -0.66% | |  | Central Office Of Political Security | 0.57% | 3.61% | |  | Coast Guards Authority | 0.10% | -16.93% | |  | National Security Authority | 0.22% | 13.78% | | **Economic Affairs** |  | **27.26%** | **-5.68%** | | First: General Economic Affairs |  | 0.01% | -13.80% | |  | Supreme Council of Economic And Oil Affairs | 0.00% | 4.11% | |  | Supreme Council Of Developing Exports | 0.00% | -100.00% | |  | Central Privatization Organization | 0.00% | -14.41% | | Second: Agriculture Fishing |  | 0.97% | 1.07% | |  | Ministry Of Agriculture | 0.86% | 0.59% | |  | Ministry Of Fisheries | 0.11% | 4.36% | | Third: Fuel And Energy |  | 28.91% | 6.06% | |  | Ministry Of Oil | 1.29% | 66.54% | |  | Petroleum Products Subsidy | 26.07% | 7.43% | |  | National Committee Of Atomic Energy | 0.00% | 0.00% | |  | Ministry Of Electricity | 1.32% | -68.10% | |  | Electricity Subsidy | 0.24% | -100.00% | | Fourth: Industry & Trade |  | 0.14% | 4.01% | |  | Ministry Of Industry & Trade | 0.14% | 4.01% | | Fifth: Transportation |  | 0.13% | -35.11% | |  | Ministry Of Transport | 0.13% | -35.11% | | Sixth: Telecommunications |  | 0.03% | -33.11% | |  | Ministry Of Telecommunications | 0.02% | -38.29% | |  | Yemen Remote Sensing & Gis. | 0.01% | -9.94% | | Seventh: Other Manufactory |  | 0.00% | -100.00% | |  | Main Consumption Goods Subsidy | 0.00% | 0.00% | |  | General Authority Of Tourism Development | 0.00% | -100.00% |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | | **(3)** |  | |  | |  | | | **Function** | | **Government Units** | | **Average share** | | **Growth** | | | **Environment Protection** | |  | | **1.08%** | | **-13.44%** | | |  | | Ministry Of Water And Environment | | 1.18% | | -43.96% | | |  | | General Authority Of Environment Protection | | 0.01% | | 0.59% | | |  | | Yemeni Authority Of Specifications & Criteria | | 0.00% | | 0.00% | | | **Housing Affairs and Public Facilities** | |  | | **4.11%** | | **-18.20%** | | |  | | Ministry Of Public Works | | 4.67% | | -8.03% | | |  | | Sana'a City | | 0.00% | | 0.00% | | |  | | Surveying Authority | | 0.00% | | 0.00% | | |  | | National Council Population | | 0.01% | | -25.60% | | |  | | General Authority Of Water Resources | | 0.02% | | -18.75% | | | **Health** | |  | | **3.74%** | | **15.44%** | | |  | | Ministry Of Health | | 3.37% | | 7.53% | | |  | | Kuwait Medical Hospital | | 0.06% | | -3.45% | | |  | | Abroad Medical Subsidies | | 0.06% | | -100.00% | | |  | | Supreme Authority Of Drugs And Medical Supplies | | 0.00% | | 0.00% | | |  | | High Council Of Maternal And Infants | | 0.00% | | 10.35% | | |  | | National Centre For Blood And its Research | | 0.01% | | -9.25% | | |  | | National Centre For General Health Laboratories | | 0.03% | | 3.13% | | |  | | National Oncology Centre | | 0.06% | | 14.24% | | | **Entertainment ,Cultural & Religious** | |  | | **1.14%** | | **11.91%** | | |  | | Ministry Of Youth And Sports | | 0.21% | | -11.37% | | |  | | General Authority Of Maintaining Historical Cities | | 0.01% | | -0.88% | | |  | | Ministry Of Culture | | 0.08% | | 4.68% | | |  | | General Authority Of Books | | 0.02% | | 0.31% | | |  | | Ministry Of Tourism | | 0.04% | | 10.44% | | |  | | Ministry Of Information | | 0.63% | | -1.40% | | |  | | Information Documentation Centre | | 0.00% | | 3.25% | | |  | | Direction And Guidelines Sector In Ministry Of Endowment | | 0.07% | | 10.44% | | |  | | General Authority Of Manuscripts | | 0.03% | | 2.20% | | |  | | National Museum For Science | | 0.00% | | -65.83% | |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | | **(4)** |  | |  | |  | | | **Function** | | **Government Units** | | **Average share** | | **Growth** | | | **Education** | |  | | **14.86%** | | **10.55%** | | |  | | Ministry of Education | | 11.79% | | 9.15% | | |  | | Ministry Of Higher Education | | 0.56% | | 2.76% | | |  | | Sana'a University | | 0.49% | | 0.43% | | |  | | Aden University | | 0.39% | | 4.95% | | |  | | Taiz University | | 0.19% | | 0.35% | | |  | | Hadramout University | | 0.15% | | 4.80% | | |  | | Ibb University | | 0.11% | | 4.48% | | |  | | Al-Hudaidah University | | 0.15% | | -3.23% | | |  | | Dhamar University | | 0.17% | | 5.68% | | |  | | Amran University | | 0.05% | | 85.54% | | |  | | Al-Baidha University | | 0.01% | | 6.25% | | |  | | Hajah University | | 0.00% | | 0.00% | | |  | | High Institute For Medical Sciences | | 0.03% | | 9.94% | | |  | | Ameen Nasher Institute For Medical Sciences | | 0.02% | | 10.84% | | |  | | High Institute Of Physical Education & Athletics | | 0.00% | | -100.00% | | |  | | Sana'a Community College | | 0.02% | | -6.03% | | |  | | Aden Community College | | 0.01% | | 3.48% | | |  | | Abbis Community College | | 0.00% | | -2.20% | | |  | | Sayoun Community College | | 0.00% | | -9.64% | | |  | | Sanhan Community College | | 0.00% | | 30.50% | | |  | | Yarrem Community College | | 0.00% | | 48.67% | | |  | | Amran Community College | | 0.00% | | -30.77% | | |  | | Al-Mafer Community College | | 0.00% | | -44.44% | | |  | | Al-Khbt Community College | | 0.00% | | -54.35% | | |  | | Al Lohaih Community College | | 0.00% | | 0.00% | | |  | | Gernal Corporation Community College | | 0.00% | | 0.00% | | |  | | High Institute Of Guidance | | 0.01% | | 1.07% | | |  | | Ministry Of Technical Education And Vocational Training | | 0.60% | | -10.29% | | |  | | Illetracy And Adult Teaching Organisation | | 0.02% | | 6.22% | | |  | | Educational Development And Researches Centre | | 0.01% | | 6.25% | | |  | | Yemeni National Committee For Education, Culture And Science | | 0.01% | | -2.63% | | |  | | Media Training Institute | | 0.00% | | 4.74% | | | **Social Protection** | |  | | **4.66%** | | **163.77%** | | |  | | Ministry Of Social Affairs | | 1.44% | | 122.93% | | |  | | General Authority Of Revolution Strugglers | | 0.07% | | 17.09% | | |  | | Yemeni Centre Of Social Studies | | 0.00% | | -15.91% | | |  | | Tribal Affairs Authority | | 0.09% | | 20.18% | |   **Total Local Tax Revenues Per Governorate** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  | | | | | | | | | | | | | |  | | | | | | | | | | | |  | | | | | |  | |  | |  | |  | |  |
| **Governorate** | | | | **2007** | | | **2008** | | | **2009** | | | | **2010** | | | | **2011** | | | **2012** | | | | | **Growth Rate** | | |
| **Sana'a City** | | | | 1,381,497,879 | | | 1,456,471,291 | | | 1,357,027,707 | | | | 1,370,522,489 | | | | 906,674,368 | | | 915,110,765 | | | | | **-8%** | | |
| **Sana'a Governorate** | | | | 6,080,013 | | | 8,533,753 | | | 26,875,479 | | | | 146,235,228 | | | | 45,170,552 | | | 38,746,300 | | | | | **45%** | | |
| **Aden** | | | | 522,536,714 | | | 605,621,481 | | | 676,526,121 | | | | 682,235,978 | | | | 438,597,529 | | | 604,304,142 | | | | | **3%** | | |
| **Taiz** | | | | 582,072,018 | | | 619,980,781 | | | 670,204,056 | | | | 826,333,774 | | | | 759,466,333 | | | 938,555,289 | | | | | **10%** | | |
| **Hudaidah** | | | | 847,570,723 | | | 863,725,479 | | | 878,614,576 | | | | 940,805,873 | | | | 742,906,495 | | | 1,059,671,349 | | | | | **5%** | | |
| **Hadhramot** | | | | 279,918,820 | | | 290,347,398 | | | 310,113,639 | | | | 377,019,407 | | | | 254,576,539 | | | 242,064,598 | | | | | **-3%** | | |
| **Ibb** | | | | 208,752,556 | | | 230,675,739 | | | 246,330,570 | | | | 266,641,737 | | | | 206,979,684 | | | 258,554,239 | | | | | **4%** | | |
| **Abyan** | | | | 131,306,509 | | | 148,982,055 | | | 158,764,726 | | | | 207,650,936 | | | | 46,248,232 | | | - | | | | | **-100%** | | |
| **Dhamar** | | | | 87,271,215 | | | 98,677,835 | | | 93,654,552 | | | | 93,551,396 | | | | 55,015,376 | | | 48,092,757 | | | | | **-11%** | | |
| **Shabwah** | | | | 78,228,958 | | | 82,083,088 | | | 88,151,499 | | | | 93,254,690 | | | | 49,150,843 | | | 88,478,045 | | | | | **2%** | | |
| **Hajjah** | | | | 183,261,658 | | | 195,292,521 | | | 172,384,303 | | | | 169,183,927 | | | | 178,129,870 | | | 190,585,516 | | | | | **1%** | | |
| **AL-Baidha** | | | | 55,500,030 | | | 64,579,580 | | | 77,196,716 | | | | 82,286,140 | | | | 63,593,151 | | | 55,549,729 | | | | | **0%** | | |
| **Lahj** | | | | 83,361,257 | | | 93,682,964 | | | 113,185,507 | | | | 107,799,888 | | | | 63,738,139 | | | 74,594,238 | | | | | **-2%** | | |
| **Sa'adah** | | | | 32,102,193 | | | 44,134,683 | | | 35,913,443 | | | | 19,763,749 | | | | 19,371,470 | | | 23,002,920 | | | | | **-6%** | | |
| **AL-Mahweet** | | | | 20,981,420 | | | 21,976,381 | | | 24,395,977 | | | | 30,063,746 | | | | 25,893,105 | | | 26,364,846 | | | | | **5%** | | |
| **AL-Maharah** | | | | 41,066,262 | | | 46,071,032 | | | 58,868,057 | | | | 85,851,130 | | | | 94,414,009 | | | 99,359,763 | | | | | **19%** | | |
| **Ma'arib** | | | | 43,807,163 | | | 50,242,223 | | | 40,796,150 | | | | 46,589,258 | | | | 29,490,399 | | | 20,166,019 | | | | | **-14%** | | |
| **AL-Jawf** | | | | 1,829,504 | | | 1,949,548 | | | 3,297,180 | | | | 4,593,169 | | | | 2,226,694 | | | 2,933,375 | | | | | **10%** | | |
| **Amran** | | | | 12,317,072 | | | 14,123,690 | | | 18,226,403 | | | | 21,443,910 | | | | 15,938,679 | | | 17,385,861 | | | | | **7%** | | |
| **AL-Dhalia'a** | | | | 30,704,963 | | | 25,407,979 | | | 29,859,659 | | | | 29,745,489 | | | | 19,965,358 | | | 23,189,642 | | | | | **-5%** | | |
| **Raima** | | | | 13,990,457 | | | 16,698,261 | | | 18,556,186 | | | | 22,005,000 | | | | 18,884,742 | | | 17,112,957 | | | | | **4%** | | |
| **Total** | | | | **4,644,157,384** | | | **4,979,257,762** | | | **5,098,942,506** | | | | **5,623,576,914** | | | | **4,036,431,567** | | | **4,743,822,350** | | | | | **0.4%** | | |
| **Source: Tax Authority 2013** | | | |  | | | | | | | | | |  | | | | | |  | | | | | | | |  | |  | |  | |  | |
|  | | | |  | | | | | | | | | |  | | | | | |  | | | | | | | |  | |  | |  | |  | |
| **Tax Collection from Local Authority (in Millions of YR)** | | | | | | | | | | | | | |  | | | | | |  | | | | | | | |  | |  | |  | |  | |
| **Item** | | | | **2007** | | **2008** | | **2009** | | | **2010** | | | | | **2011** | | | **2012** | | | | **Growth Rate** | | |
| Profit Tax on Free Professions | | | | 503,963,983 | | 588,372,593 | | 554,926,214 | | | 574,497,243 | | | | | 449,326,194 | | | 398,280,859 | | | | -5% | | |
| Property Ownership Transfer Fee | | | | - | | - | | - | | | - | | | | | - | | | - | | | | 0% | | |
| Sales Tax on Entertainment tickets | | | | 15,138,947 | | 15,367,832 | | 19,114,118 | | | 17,370,945 | | | | | 7,631,878 | | | 22,524,063 | | | | 8% | | |
| Fees license on different professions | | | | - | | - | | - | | | - | | | | | 425,000 | | | 365,000 | | | | -3% | | |
| Local fines and Confiscations | | | | 337,920 | | 759,787 | | 2,712,170 | | | 1,511,678 | | | | | 459,658 | | | 1,320,343 | | | | 31% | | |
| Revenue from Sanctions | | | | 1,621,963 | | 2,875,566 | | 2,317,877 | | | 1,671,664 | | | | | 1,921,221 | | | 1,510,368 | | | | -1% | | |
| **Total Local Revenues** | | | | **521,062,813** | | **607,375,778** | | **579,070,379** | | | **595,051,530** | | | | | **459,763,951** | | | **424,000,633** | | | | **-4%** | | |
| Earning Tax on Free Professions | | | | 26,806,716 | | 30,684,725 | | 37,428,949 | | | 46,010,773 | | | | | 27,244,594 | | | 32,896,795 | | | | 4% | | |
| Tax on the proceeds of real estate | | | | 1,044,527,431 | | 1,205,759,505 | | 1,348,906,650 | | | 1,547,397,794 | | | | | 1,175,718,415 | | | 1,422,936,310 | | | | 6% | | |
| Qat Sales Tax | | | | 3,047,972,721 | | 3,127,622,582 | | 3,121,738,839 | | | 3,420,075,672 | | | | | 2,367,462,623 | | | 2,840,813,696 | | | | -1% | | |
| Joint fines and Confiscations | | | | 3,473,338 | | 7,571,632 | | 11,702,634 | | | 15,041,145 | | | | | 6,241,984 | | | 23,174,916 | | | | 46% | | |
| Other Fees | | | | 314,365 | | 243,540 | | 95,055 | | | - | | | | | - | | | - | | | | -100% | | |
| **Total Joint Revenues** | | | | **4,123,094,571** | | **4,371,881,984** | | **4,519,872,127** | | | **5,028,525,384** | | | | | **3,576,667,616** | | | **4,319,821,717** | | | | **1%** | | |
|  | | | |  | |  | |  | | |  | | | | |  | | |  | | | |  | | |
| **Total Tax Revenues** | | | | **4,644,157,384** | | **4,979,257,762** | | **5,098,942,506** | | | **5,623,576,914** | | | | | **4,036,431,567** | | | **4,743,822,350** | | | | **0.4%** | | |
| **Source:**  **Tax Authority 2013** | | | |  | | | | | | | | | |  | | | | | |  | | | | | | | |  | |  | |  | |  | |
|  | | | |  | | | | | | | | | |  | | | | | |  | | | | | | | |  | |  | |  | |  | |
| **As Percentage of Total Tax Revenues** | | | | | | | | | | | | | |  | | | | | |  | | | | | | | |  | |  | |  | |  | |
| **Item** | | | | **2007** | | **2008** | | | **2009** | | | | **2010** | | | | **2011** | | **2012** | | **5- year Average** | | | | |
| Profit Tax on Free Professions | | | | 10.9% | | 11.8% | | | 10.9% | | | | 10.2% | | | | 11.1% | | 8.4% | | 10.5% | | | | |
| Property Ownership Transfer Fee | | | | 0.0% | | 0.0% | | | 0.0% | | | | 0.0% | | | | 0.0% | | 0.0% | | 0.0% | | | | |
| Sales Tax on Entertainment tickets | | | | 0.3% | | 0.3% | | | 0.4% | | | | 0.3% | | | | 0.2% | | 0.5% | | 0.3% | | | | |
| Fees license on different professions | | | | 0.0% | | 0.0% | | | 0.0% | | | | 0.0% | | | | 0.0% | | 0.0% | | 0.0% | | | | |
| Local fines and Confiscations | | | | 0.0% | | 0.0% | | | 0.1% | | | | 0.0% | | | | 0.0% | | 0.0% | | 0.0% | | | | |
| Revenue from Sanctions | | | | 0.0% | | 0.1% | | | 0.0% | | | | 0.0% | | | | 0.0% | | 0.0% | | 0.0% | | | | |
| **Total Local Revenues** | | | | **11.2%** | | **12.2%** | | | **11.4%** | | | | **10.6%** | | | | **11.4%** | | **8.9%** | | **10.9%** | | | | |
| Earning Tax on Free Professions | | | | 0.6% | | 0.6% | | | 0.7% | | | | 0.8% | | | | 0.7% | | 0.7% | | 0.7% | | | | |
| **Tax on the proceeds of real estate** | | | | **22.5%** | | **24.2%** | | | **26.5%** | | | | **27.5%** | | | | **29.1%** | | **30.0%** | | 26.6% | | | | |
| **Qat Sales Tax** | | | | **65.6%** | | **62.8%** | | | **61.2%** | | | | **60.8%** | | | | **58.7%** | | **59.9%** | | 61.5% | | | | |
| Joint fines and Confiscations | | | | 0.1% | | 0.2% | | | 0.2% | | | | 0.3% | | | | 0.2% | | 0.5% | | 0.2% | | | | |
| Other Fees | | | | 0.0% | | 0.0% | | | 0.0% | | | | 0.0% | | | | 0.0% | | 0.0% | | 0.0% | | | | |
| **Total Joint Revenues** | | | | **88.8%** | | **87.8%** | | | **88.6%** | | | | **89.4%** | | | | **88.6%** | | **91.1%** | | **89.1%** | | | | |
|  | | | |  | |  | | |  | | | |  | | | |  | |  | |  | | | | |
| **Total Local Tax Revenues** | | | | **100.0%** | | **100.0%** | | | **100.0%** | | | | **100.0%** | | | | **100.0%** | | **100.0%** | | **100.0%** | | | | |

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