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BRIEF

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The Role of the Private Sector in Peacebuilding in Yemen

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Introduction

This Brief focuses on the private sector's contributions to peace requirements in six areas: the economy, politics, culture and society, security and justice, education and the environment. It is part of 'Research Cooperation on Peacebuilding in Yemen', a wider project that encourages Yemeni-international

Executive Summary

This Brief analyzes the state of the private sector in Yemen during the ongoing war and explores its potential to contribute to the country's peace requirements. It presents challenges entrepreneurs face and the potential contribution of these in sectors that are central to the construction and sustainability of peace. It highlights the fact that their actions and capacity to offer jobs and revenue to the Yemeni population are constrained by the fragmentation of authority and the resultant lack of transparency. It also demonstrates that the focus on regional and international aid has left many entrepreneurs feeling abandoned and helpless.

Among its recommendations, this Brief stresses the importance of mending the fragmented Central Bank and unifying state legal structures. It also highlights ways to support the neutrality of the private sector to prevent its politicization, in particular through the development of the Chambers of Commerce and through connections with civil society. The Brief also encourages the international community to shift its focus from the humanitarian issue to economic development.

research cooperation on peace requirements in Yemen. CARPO is implementing the entire project on behalf of the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH and by commission of the German Federal Ministry for Economic Cooperation and Development (BMZ).¹

The conflict in Yemen has taken a heavy toll on an already impoverished economy. Assistance and relief efforts have been carried out for many years by a multitude of international and local organizations and will continue to be required as the war continues. Yet, these efforts have largely neglected the centrality of the fiscal and economic crises, which are, beyond the fighting, at the heart of the humanitarian catastrophe.

Looking into the economy, the role of the private sector is fundamental. While its members are not exempt from critique, as some have become significant proponents of violence and directly benefit from the conflict, the overall role of the private sector is crucial to securing peace and stability. It is through the private sector that the GDP of the country increases, that jobs are available, and that money potentially circulates,

thus distributing wealth across Yemeni society and letting its citizens envision a better future. Losses of income and economic pessimism over the past years have not only resulted in increasing psychological stress, particularly among the younger generation,² but also in openness among young men for recruitment by warring factions.

Beyond the issue of inter-elite concessions that are the basis of any form of peace talks, building peace requires dynamic economic prospects, be it in industry, commerce, services or agriculture. But first, a diagnosis of the current state of the private sector is essential. Once the current situation is established, this Brief, which builds on extensive fieldwork,³ will present challenges for the private sector and its potential contribution in a number of sectors that are central to the construction and sustainability of peace.

A Short History of the Private Sector in Yemen

Beyond a limited number of large-scale companies, the private sector in Yemen before 2011 consisted predominantly of micro, small and

¹ In CARPO Report 06 *Understanding Peace Requirements in Yemen. Needs and Roles for Civil Society, Women, Youth, the Media and the Private Sector*, published in March 2019, Mareike Transfeld and Marie-Christine Heinze lay out the manifold challenges in these six areas to establishing stability and building peace in Yemen, and the resulting efforts which will be required from different actors and segments of Yemeni society. The Report is available at https://carpo-bonn.org/wp-content/uploads/2019/05/carpo_policy_report_06_2019.pdf (22.10.2019).

² See the results of the research conducted by the 'Youth Team' in this project: Maged al-Kholidy, Yazeed al-Jeddawy and Kate Nevens (27.04.2020): *The Role of Youth in Peacebuilding in Yemen*, CARPO/YWBOD Brief 17, p. 4.

³ This paper is the result of fieldwork and interviews carried out in different parts of Yemen in the summer of 2019 (with researchers based in Sana'a and abroad). More than a dozen semi-structured interviews and focus group discussions with relevant actors of the private sector, ranging from small enterprises to large conglomerates and institutions, were carried out along with analyses of current events, statistics and expert reports. Research occurred in a most constraining environment, highlighting how even a focus on the economy has become an object of controversy in a war-torn country, where mistrust has become the rule. Consequently, to ensure that interviewees will remain unaffected, their anonymity has been safeguarded.

medium enterprises (MSMEs) – over 97 percent of all firms (about 290,000) had fewer than 25 employees.⁴ Industrial centers were located in and around Sana'a, Ta'iz, Aden and al-Hudayda, with output almost exclusively serving domestic consumption.⁵ Between 1990 and 2010, the economy in Yemen officially grew at an average of 5 percent yearly. However, due to the population growth, average per capita growth of gross domestic product (GDP) only reached 1.3 percent. Such growth was mainly linked to the oil and gas sector and associated private services such as transport, trade and communications, which mirrors a classic example of the 'natural resource curse'. The importance of the informal sector, which provides 73 percent of total employment, remained underutilized by the authorities, which were unable to develop mechanisms and incentives to incorporate them into the formal sector.⁶ Within the formal private sector that did drive the growth, many of the larger businesses were run by Yemenis not living in the country, but who continued to maintain family and tribal ties with allegiances that extend across borders. This 'absentee owner' phenomenon has only grown due to the conflict.

Before the war, agriculture made up 11 percent of Yemeni GDP and, along with the industrial sectors, relied on imports such as pesticides, compost and other basic materials.⁷ Despite

its comparatively low contribution to the country's GDP, the agricultural sector was the main source of livelihood for two-thirds of the population prior to the war. Its role in this regard became increasingly constrained by several issues, most prominently water depletion and the *qat* monoculture. The economy was also confronted with its heavy dependency on oil and gas, a sector that only benefited a limited number of actors with patronage links to the government, thus encouraging corruption. The concentration of activities in the hands of a few companies and in a reduced number of subsectors further induced a lack of innovation. In a context in which education was often poorly adapted to produce creativity and variety, 90 percent of businesses centered around a limited number of subsectors of the economy – retail, transportation, communication, construction, manufacturing, food and beverage in particular. Most were importers instead of manufacturers. According to a representative of the Social Fund for Development, "this heavy concentration of businesses on a few subsectors means that businesses were heavily competing on price affecting their profitability".⁸

Most analysts and entrepreneurs acknowledge that the main problem for the private sector pre-2011 was the patronage system. The emergence of a new category of business actors

4 Nabila Assaf (2013): *Stimulating Business and Employment in Yemen*, MENA Knowledge and Learning, The World Bank. Available at <https://bit.ly/3cEb4Nv> (12.06.2019).

5 World Bank (2018): *Yemen. Comprehensive Development Review, Private Sector Development Building Block*. Washington, DC. Available at <http://documents.worldbank.org/curated/en/458221468345852637/pdf/335760YE1Private.pdf> (06.09.2019).

6 World Bank (2015): *The Republic of Yemen: Unlocking the Potential for Economic Growth*. Report No. 102151. Available at <http://documents.worldbank.org/curated/en/673781467997642839/pdf/102151-REVISED-box394829B-PUBLIC-Yemen-CEM-edited.pdf> (10.06.2019).

7 World Bank/UN/EU/IDB/GoY (2014): *Joint Social and Economic Assessment of the Republic of Yemen*. Available at <https://reliefweb.int/sites/reliefweb.int/files/resources/Joint%20Social%20and%20Economic%20Assessment%20for%20the%20Republic%20of%20Yemen.pdf> (11.06.2019).

8 Interview with a representative of the Social Fund for Development on 8 August 2019, Sana'a.

since unification in 1990 and the privatization that ensued both in former North and South Yemen was characterized by close association with centers of influence.⁹ It is estimated that, at that time, ten families controlled 80 percent of imports, manufacturing, processing, banking, telecommunications, and transport.¹⁰ Furthermore, unfair competition for the private sector came from state-owned enterprises, such as the Military Economic Corporation (MECO), later rebranded as the Yemen Economic Corporation (YECO).¹¹ These state-owned businesses were granted privileges by the government and dominated certain subsectors such as telecommunications and transportation.¹²

During the uprising of 2011/12, the instability in Yemen resulted in low investments by internal and external investors.¹³ After 2012 and Salih's demission, the private sector continued to operate in a difficult environment due to instability, corruption, extortion, and lack of basic services, including electricity and internet access. The private sector, particularly in construction, also suffered heavy losses due to non-payment of their dues by the government.

The Situation of the Private Sector During the Conflict

Undoubtedly, the war has devastated the economy and the private sector in Yemen. Most production efforts of the oil and gas companies have stopped and exports of these products have been terminated; and despite resumption of limited exports in 2016, the resulting lack of foreign currency revenues has in turn contributed to the collapse of the Yemeni rial.¹⁴ Large companies are proving more resilient than smaller businesses, as they have greater access to internal and external resources, as well as greater political influence.

In addition to the shrinking access to foreign currency, infrastructure has been destroyed either by fighting or by neglect and lack of investment. Productive properties have been targeted with shelling and bombardments, causing losses such as in the port of Aden at the onset of the war or later in the ports of al-Khawkhah and al-Hudayda. Belligerents also seized properties and real estate in discriminatory retaliation.

9 Sherine El Taraboulsi-McCarthy, et al. (2017): *Private Sector Engagement in Complex Emergencies. Case Studies from Yemen and Southern Somalia*. HPG Report. Humanitarian Policy Group. Available at <https://www.odg.org/sites/odi.org.uk/files/resource-documents/11354.pdf> (06.06.2019).

10 Ginny Hill, et al. (2013): *Yemen. Corruption, Capital Flight and Global Drivers of Conflict*, Chatham House Report. Available at https://www.chathamhouse.org/sites/default/files/public/Research/Middle%20East/0913r_yemen_es.pdf (15.06.2019).

11 Adam C. Seitz (2017): 'The tribal-military-commercial complex and challenges to security sector reform in Yemen', in: Marie-Christine Heinze (ed.): *Addressing Security Sector Reform in Yemen. Challenges and Opportunities for Intervention During and Post-Conflict*, CARPO Report 04, pp.14-21. Available at https://carpo-bonn.org/wp-content/uploads/2017/12/carpo_policy_report_04_2017.pdf (12.06.2019).

12 World Bank (2015): *The Republic of Yemen. Unlocking the Potential for Economic Growth – A Country Economic Memorandum*. Available at <http://documents.worldbank.org/curated/en/673781467997642839/pdf/102151-REVISED-box394829B-PUBLIC-Yemen-CEM-edited.pdf> (25.06.2019).

13 Rethinking Yemen's Economy (2018): *Priorities for Private Sector Recovery in Yemen. Reforming the Business and Investment Climate*, RYE Policy Brief 15. Available at https://carpo-bonn.org/wp-content/uploads/2019/10/RYE_brief_15.pdf (18.06.2019).

14 Mansour Ali Al Bashiri (2019): *Economic Confidence-Building Measures – Civil Servant Salaries*, RYE Policy Brief 11. Available at <https://carpo-bonn.org/wp-content/uploads/2019/03/Rethinking-Yemen%E2%80%99s-Economy-policy-brief-11.pdf> (13.06.2019).

Furthermore, unpaid salaries have had a negative impact on the purchasing power of many families, thus negatively impacting the private sector. On a positive note, this abrupt end to regular income has encouraged some previous public sector employees to set up their own businesses.

Legal Framework

The legal framework, as it existed before the war, has largely been suspended. Uncertainty has thus become prevalent. According to a representative of the General Union of Yemeni Contractors in Sana'a, "laws apply only when it comes to taking care of the interests of the government".¹⁵ Despite in compliance with existing national laws, new regulations regarding taxation, or the protection of businesses and customers, continue to be announced. For example, the Administrative Court in Sana'a issued a ruling on 30 July 2019, cancelling the decision issued by the Minister of Finance (in the Sana'a-based authority) No. 117, dated 11 March 2019, which imposed new customs duties on public vehicles that had already paid customs at the ports of entry in the governorates of al-Mahra and Aden.¹⁶ In 2019, the General Authority for Zakat in Sana'a and its offices were accused of imposing a discretionary and variable Islamic tax that at times reached to 30 percent of profits.¹⁷ Other fees outside the legal framework have been imposed in a wide range of areas, such as charging a percentage of a sale for simple notarization of the purchase document. Other illegal fees, such as 'transportation crossing fees', are also being levied by both sides at checkpoints.

Banking System

Among the most significant challenges that have emerged in the course of the war, the instability of the banking system ranks high. The poorly prepared, planned and forced transfer of the Central Bank from Sana'a to Aden has had a significantly negative impact on the economy. The subsequent misuse of this institution and the printing of local currency, in addition to other factors such as the drop in oil and gas exports, have resulted in the collapse of the currency from 215 to almost 580 YR per USD (as of April 2020). Due to the depletion of foreign reserves, the Central Bank is unable to feed the monetary system. Therefore, Commercial banks have stopped providing credit and other services to their customers due to lack of currency and the present financial instability. As a result, exchange businesses outside the formal banking system have flourished.

Siege

Since the beginning of the war, the economy has been affected by the closure of many of its borders. UN Security Council Resolution 2216 of April 2015 has been cited by the Saudi-led coalition as justification for the siege of Yemeni territory in order to enforce an arms embargo. Control procedures have varied and generated uncertainty, being monitored by not only the United Nations, but also by the internationally-recognized government and Saudi Arabia. According to businessmen and women, the closure of al-Hudayda port and the transfer of shipments to Aden port

¹⁵ Interview with a member of the General Union of Yemeni Contractors on 28 August 2019, Sana'a.

¹⁶ Judgments Nos. 187, 188/2019, issued by the Administrative Court in Sana'a on 30 July 2019.

¹⁷ *Zakat* is an obligatory payment made annually under Islamic law on certain kinds of property and used for charitable and religious purposes.

have caused further problems: “The cost of shipping from Europe or China to the Yemeni ports was about 1,300 USD for the container, but now reaches 4,000 USD due to insurance costs.”¹⁸ Shipping to Salala, Oman, has become an alternative for local importers, particularly Northern businessmen who perceive discrimination at Aden port. As one businessman recalled: “The moody administration at Aden Port applied customs duties of 2800 USD per ton, while the law imposes 7 percent of the total value of the bill. The customs duties were prohibitive and I ended up transferring my shipment to Oman and then into Yemen by land transport”.¹⁹ These issues have increased prices of goods, with direct implications for the agriculture sector in particular. Employment in this sector has allegedly declined by 50 percent in some areas.²⁰ On the other hand, the difficulty of importing has encouraged local manufacturing.

Local production has been hampered, however, by the Saudi-led coalition prohibiting a list of goods, which includes, among other things, urea, batteries, solar panels, alcohol, sulfur, chemicals and certain laboratory equipment. This has decreased the productivity of factories and fueled the smuggling of medicines in unsafe ways. Furthermore, the prohibition of solar panels and batteries has put a near halt to a market that had been flourishing for almost a decade.

Yet, despite these difficulties, certain goods continue to be accessible throughout the

country at prices that remain surprisingly competitive when compared to neighboring countries. Such is the case for telephones, computers or even vehicles, highlighting the maintained fluidity of the flows of certain goods – which are nevertheless inaccessible to most Yemenis.

Informal vs Formal Actors and the War Economy

War and the weakness of state institutions have only enhanced the existence of an informal economy (i.e. not formally registered businesses) and increased its competition with formally registered companies. Formally registered entrepreneurs often find that they are ‘left out in the cold’ by authorities, from all regions and levels, who do not provide support nor incentives. New ‘informal’ entrants with political leverage frequently escape taxation through corrupt practices at the expense of the formal businesses who may not have such access to authorities. While these new actors may generally remain unable to deal with large international companies, they have developed access to NGOs and INGOs, active proponents in the businesses that revolve around international aid: “Stocking and distribution of aid are in particular plagued by corruption.”²¹

Several sectors have consequently benefited greatly from the disorganization of state institutions, generating large profits. Illegal trade of tobacco and pesticides, the latter

¹⁸ Interview with businessman in the oil & gas sector on 8 August 2019, Sana’a.

¹⁹ Interview with businessman in the oil & gas sector on 8 August 2019, Sana’a.

²⁰ World Bank (2016), p. 7.

²¹ Interview with a representative of the Social Fund for Development on 8 August 2019, Sana’a.

being central in *qat* culture, has developed significantly, as is also the case with the trade in fuel and weapons. Money laundering has also become an important phenomenon, in particular as related to real estate.

Fragmentation of Authority and Discrimination

Due to the fragmentation of state authorities, circulating goods are often subject to a double collection of customs and taxes. Authorities in both Sana'a and Aden have been accused of taking arbitrary measures against and exerting pressure on the private sector. For example, courts have neglected the demands of actors who have not been paid their entitlements by the state, with each authority blaming its opponents. In addition to the lack of a fixed legal framework, procedures for obtaining business licenses have become increasingly opaque, generating costs that become prohibitive and, in turn, reinforcing the informal sector.

Unanimously, all our interview partners in the private sector stated that one of their biggest current challenges links to the fragmentation of authority: "The war has produced a set of new classifications based on regionalization".²² Northern companies are being unofficially discriminated against in parts of the country that are under the nominal control of the internationally-recognized government. Companies in the South have also been barred by 'separatists' from dealing

with businesses in the North, including commercial agents and suppliers. Southern procurement officials have been instructed by various parties to search for goods from other markets or import them from abroad, often at a higher price, rather than buy from Northern businesses. Evidently, the parties to the conflict accuse each other of discrimination and engage in finger-pointing.

Contributions from the Private Sector to Peace Requirements in Yemen

The second part of this Brief investigates the different mechanisms through which actors in the private sector, at all levels, can contribute to making peace not only possible, but also sustainable. The recommendations in the following section may provide direction.

Economy

The private sector has to a certain extent continued to provide jobs, maintaining, for some, a livelihood that can contribute to renewed stability. Securing stable employment will be key to achieving peace in the long term, but will require investment in Yemen's human capital in order to meet demand for skilled employees.²³ This would also provide the Yemeni workforce the ability to compete for higher-paying and more stable jobs in Yemen and regionally.

²² Interview with businesswoman on 2 September 2019, Sana'a.

²³ 'The Rethinking Yemen's Economy' initiative provides interesting recommendations in regard to the development of Yemen's human capital: Rethinking Yemen's Economy (January 2020): *Developing Human Capital*, RYE Policy Brief 18. Available at https://carpo-bonn.org/wp-content/uploads/2020/01/RYE_policy_brief_18.pdf (02.04.2020).

Even as the war continues, the private sector is currently providing alternative energy sources, such as solar power systems, for households and businesses and solar-powered water pump systems for irrigation, thus allowing production to continue. The private sector is also increasingly providing local electrical power systems for communities, in particular in urban areas, generating renewed trust in locally implemented solutions and stability. Another example of the private sector contributing to the economy: Some businesses in the industrial sector have been paying their trained staff half of their normal salaries, in the hope that once the conflict is over and business again picks up, these experienced employees will continue to work with them.

The demonstrated resilience of segments of the private sector, which continue to pay taxes, has helped maintain limited capacities that support government institutions and services, and provide public sector employees with partial salaries in Houthi-controlled areas. Similar mechanisms, operated with financial support from the coalition, exist in areas under the control of the government of Yemen. This financial contribution of private sector actors, often unaccounted for, highlights the constructive role entrepreneurs can play to foster peace, by distributing wealth to those who might otherwise join, for financial survival, a warring faction.

Politics

Politics and the economy are intricately linked in Yemen. As one businesswoman in Sana'a explained, "The private sector is living under the influence of a changing political map, which has put pressure on it. Actors of the private sector are most often trying hard to implement a policy of neutrality to avoid the reactions of the conflicting parties."²⁴ Despite that the private sector is finding itself 'forced' to stray from neutrality to maintain business. If a business does not affiliate itself politically, it may encounter a backlash from the authorities.

It would be wrong, however, to state that private actors are helpless when it comes to influencing political outcomes. The private sector can make positive contributions: for example, through the Chambers of Commerce²⁵, they have enabled flow of goods between enemy lines, generated de-escalation, and encouraged functional and daily interactions. Since the onset of the war in 2015, the Federation of Chambers of Commerce has submitted several letters to the Office of UN Special Envoy to Yemen, demanding that parties to the conflict respect the neutrality of the private sector and the economy, as per the principled neutrality of the UN itself. Despite evident complexity of the request, entrepreneurs claimed during the summer of 2019 there had been some improvement towards political neutrality as regards the economy and private sector.

²⁴ Interview with businesswoman on 2 September 2019, Sana'a.

²⁵ The Federation of Yemen Chambers of Commerce and Industry is a local organization of businesses and companies established in 1963 with the intent to develop and further interests of businesses and companies in Yemen. It has since expanded to 12 Chambers of Commerce in various governorates. Among its activities are: safeguarding business interests and sharing business experiences and business interests; establishing contact with governments, civil society, local media and the press; and organizing trade shows and events.

Clusters, such as from the 'Development Champions'²⁶ and the 'Bringing Back Business' (BBB) project,²⁷ are seeking, with international backing, to gain more leverage and assert the principled neutrality of economic actors. Such clusters could help enable the private sector to have a say in future policy-making, which would also strengthen their ability to fight corruption. As already mentioned, a major problem for the private sector is the fragmentation of authorities and governance. A potential countermeasure could be for the private sector to establish new and constructive ways to cooperate with governance institutions on the local level, i.e. the local councils. In fact, local governance mechanisms will be instrumental in establishing stability and peace, generating trust in peaceful means of conflict resolution. The private sector can cooperate with local authorities to provide training and funding for SMEs, thereby giving legitimacy to local governance.

Culture and Society

According to one Sana'a-based businessman, working in the oil sector, "The private sector, to some extent, is aware and knowledgeable of their cultural and social responsibility. If it wasn't for the private sector, many of the needs would not be fulfilled and the humanitarian situation would be much worse and everything would have collapsed."²⁸ During the war, private entrepreneurs have often responded to community needs well before the intervention of the UN and other relief organizations.²⁹ As international aid is able to offer only partial support for a country of 30 million people, the private sector has played a vital role in safeguarding Yemeni society from an even more disastrous humanitarian situation through its funding of civil society activities.

Beyond their usual role as providers of market goods and services, some companies have contributed to social welfare in addition

26 The Development Champions are a group of Yemeni experts in development, the economy and finance who have been assembled in the framework of the 'Rethinking Yemen's Economy' initiative. The aim of this initiative is to contribute to peacebuilding and conflict prevention, (economic) stabilization and sustainable development in Yemen by building consensus in crucial policy areas through engaging and promoting informed Yemeni voices, i.e. the Development Champions, from all backgrounds in the public discourse on development, economy and post-conflict reconstruction in Yemen and by positively influencing local, regional and international development agendas. The project is implemented by CARPO, DeepRoot Consulting and the Sana'a Center for Strategic Studies. Website of the Development Champions: <https://devchampions.org/>.

27 SMEPS initiated a workshop funded by the World Bank BBB project, which brought together private sector representatives from across Yemen and the MENA region to discuss the private sector role in supporting humanitarian and recovery efforts in Yemen. The workshop, which followed previous meetings, had the objective of forming a private sector cluster. This private sector cluster aimed at: (1) involving the private sector in economic policy-making; (2) increasing the role of the private sector in humanitarian and development efforts; and (3) involving the private sector in recovery and reconstruction programs and efforts. See more at: World Bank (2019): *Yemen Private Sector Cluster. "Engaging the Private Sector in Decision-Making, Humanitarian Efforts and R&R Efforts"*, Policy Memo. Available at <http://documents.worldbank.org/curated/en/740431563254533655/pdf/Yemen-Private-Sector-Cluster-Engaging-the-Private-Sector-in-Decision-Making-Humanitarian-and-R-and-R-efforts-Policy-Memo.pdf> (19.04.2020).

28 Interview with businessman in the oil & gas sector on 8 August 2019, Sana'a.

29 Ali Azaki (March 2018): *International Aid Organizations and the Yemeni Private Sector: The Need to Improve Coordination in Humanitarian Crisis Response*, RYE Policy Brief 3. Available at <https://carpo-bonn.org/wp-content/uploads/2018/03/Rethinking-Yemen%E2%80%99s-Economy-policy-brief-3.pdf> (06.08.2019).

to development. For example, the privately funded Food Bank and Medicine Bank provide assistance by supplying food and medicines to the poor and IDPs. More than 400 water tanks were distributed around Sana'a by the Sana'a Chamber of Commerce; financial aid has been provided to patients and charity bakeries. Others, such as the Hayel Saeed Group and al-Habari Group, have continued their own charitable foundations or contributed to funding other civil society organizations (CSO). Amongst other efforts, the Hayel Saeed Group has supplied food baskets to schools in a variety of districts across all of Yemen, setting an example of political neutrality in the private sector. Moreover, in preparation for the likely spread of Covid-19 in Yemen, the Group together with other actors from the private sector and the Federation of Yemen Chambers of Commerce and Industry, and in coordination with the United Nations, has donated tens of thousands of test kits as well as other medical equipment to the country.³⁰

The private sector has also assisted civil society in other ways. For example, individual entrepreneurs have participated in local community programs. For instance, the NGO Pulse for Social Justice offers funding and technical assistance to citizens, particularly in a number of districts around Ibb, for development projects. Funding of health facilities, supplying medicines and paying for surgeries are other interventions currently offered by entrepreneurs. In coordination with local councils, private initiatives have emerged

in Hadhramawt to provide youth and women entrepreneurs with training and start-up capital for their ventures. As a result, more than 100 projects have been funded in that governorate since 2018, as reported in the findings of the 'Youth' and 'Women Teams' of this project.³¹

Security and Justice

Insecurity is present, in varying degrees, across the country. Most private sector companies state that they have an interest in seeing the rule of law enforced, as entrepreneurs understand that failure of the central state will also affect them financially. Yet, many businesses engage in illicit activities, or encourage the privatization of security and justice through the funding of local militias in order to protect their assets, such as the Balhaf gas terminal. The establishment of such actors operating outside the control of public authorities has the potential to risk future stability.

Most entrepreneurs question both the efficiency and the impartiality of judges and the courts. Due to the lack of trust, alternative channels are often used, in particular tribal and local mediation. There have also been attempts to attain arbitration through the Chambers of Commerce, as in Sana'a and Ta'iz. However, these centers are not sufficiently supported by neither the state nor the private sector, despite promotion on radio stations in Sana'a that encourage use of arbitration mechanisms via the Chamber of

³⁰ Reuters (21.04.2020): 'Companies give Yemen tens of thousands of coronavirus test kits to ease shortage', in: *Reuters*. Available at <https://www.reuters.com/article/us-health-coronavirus-yemen/companies-give-yemen-tens-of-thousands-of-coronavirus-test-kits-to-ease-shortage-idUSKCN223325> (23.04.2020).

³¹ Al-Kholidy, al-Jeddawy and Nevens (27.04.2020), p. 7; Iman al-Gawfi, Bilkis Zabara and Stacey Philbrick Yadav (27.02.2020): *The Role of Women in Peacebuilding in Yemen*, CARPO/GDRSC Brief 14, p. 10.

Commerce. In this context, the private sector currently appears unable to significantly contribute to furthering security and justice.

Education

Since the start of the war, a limited number of educational institutions have benefited from private sector contributions to cover operational costs or teachers' salaries. Some of these relationships have been long-term, as in La'bus, Lahij governorate, where the faculty of education remains largely funded by the al-'Isi merchant family. In other areas, other private sector actors, such as MTN and al-Ziyadi, have also started to fund food baskets for teachers. Nevertheless, education in general, as well as vocational and technical training, are far from a priority for the state, donors, or the private sector. By all counts, Yemen's human capital accumulation has significantly regressed since the start of the conflict, even though education is a prerequisite for any future peacebuilding and reconstruction.

Investment in the human capital of Yemen will surely be a main lever to prevent renewal of conflict and to encourage post-conflict economic recovery. The weakness and fragmentation of the state makes it unable to perform its duties, putting the private sector in a better position to invest and implement policies designed for human capital development. There is a clear need, however, for better coordination between public and private sectors, in particular through the funding of specific training facilities for local companies.³² Despite the bleak picture, there

are recent examples of positive engagement. YLNG has run a successful program through their School of Technology in Balhalf, delivering high-level technical education in areas linked to hydrocarbon industries. Unfortunately, the initiative has been put on hold due to the war. Other companies, such as al-Habari Group, have donated 80 percent of total construction costs of the Mechatronics Department building at the Faculty of Engineering at Sana'a University.

Environment

Many reasons stand behind the limited role of the private sector's contribution to the environment. Some actors argue that their main limitation is the lack of any governmental policy framework.³³ There are no national goals set to establish environmental priorities and guide policymaking; thus, there is a lack of coordinated guidance to the general public. As for the private sector, very few regulations regarding corporate social responsibility, including environment safeguards, exist in Yemen. Even as overall public awareness of future environmental challenges remains low, many actors in the private sector are also uninformed of their environmental responsibilities. This lack has led, repeatedly, to severe environmental damage caused by the private sector. For example, in the study 'Local visions for peace in Hadramawt', the Sana'a Center highlights ongoing environmental concerns related to the oil sector in the governorate, including "pollution from petroleum waste, and from the water used to wash oil transporter ships".³⁴

³² Rethinking Yemen's Economy (January 2020): *Developing Human Capital*.

³³ Interview with businesswoman on 2 September 2019, Sana'a.

³⁴ Sana'a Center for Strategic Studies (2019): 'Local visions for peace in Hadramawt', in: *Sana'a Center for Strategic Studies*. Available at <https://sanaacenter.org/publications/main-publications/7893> (19.04.2020).

Yet, some positive practices are emerging: Solar energy has indirectly reduced dependence on carbon-based energy and the timid (re)-introduction of alternative cash crops, including coffee cultivation in Yafi', Hajja and Jabal Bura', will hopefully help reduce water waste in the long term.

The role of entrepreneurs, particularly in agriculture, is apparent when it comes to pollution and over-exploitation of natural resources. As well, as our interviews have shown, the idea of corporate responsibility is far from prevalent. Most interviewees stated that environmental concerns remain constrained by project requirements. The issue of pesticides is a central and immediate example, in particular due to the consumption of *qat* by large proportions of the population. (This sector is central to the war effort, given that the provision of *qat* is part of the 'benefits' enjoyed by men recruited into the militias). While certain entrepreneurs claim to be conscious of the issue and intend to stick to international standards, many others import and use banned phytosanitary products. In contrast, investments in desalination and the provision of clean drinking water, as well as water treatment plants, show that environment health could become an emerging market for private sector actors, enabling them to play a central role in building a sustainable environment. Currently, however, there is minimal interest in climate change and the effect it has on the business environment. Given the present and potential future impacts of climate change in water-scarce Yemen, there is an urgent need to address these concerns by

introducing a regulatory framework on environment-related issues, and mainstreaming environmental safeguards and corporate social responsibility into all programs working with the private sector.

Cooperation and Conflict between the Private Sector and Other Actors

Civil society in the Yemeni context is understood as "the space between the government and political parties and social organizations such as tribes"³⁵ as well as community groups and leaders. Many civil society organizations active in Yemen have largely focused on humanitarian response, where the private sector also focused. The cooperation between the two actors has been typically characterized by the private sector providing grants and cash assistance to civil society. However, with the emerging role of civil society actors as service providers, along with trends to deal with informal actors in the private sector, conflicts of interest may emerge. The lack of mutual trust, created by the current political atmosphere, has increased the gap between civil society organizations and the private sector. Interviewees from the private sector stated that barriers between civil society organizations and the private sector also relate to poor capacities and resources among local CSOs and NGOs.

The *media* in Yemen is constrained by its control by Yemeni and regional actors, which has resulted in a politicization of this industry. Since it generates little if any profit, it remains largely connected to parties in the

³⁵ Marieke Transfeld and Marie-Christine Heinze (2019).

conflict and thus often produces biased reporting.³⁶ Generally, media agencies deal with companies in the private sector as potential clients to buy advertising services. Media agencies often have trouble playing their role as watchdogs, being dependent on money coming from politically active individuals. Many media outlets cover economic issues, in particular matters linked to corruption, in a biased way, and often broadcast rumors. Yet, interactions between the media and entrepreneurs of the private sector have also become more constructive, accompanying the professionalization of coverage of broader issues, such as the problems faced by the private sector, as well as the business environment. While the private sector may not be qualified to assist in training journalists, it can certainly contribute by establishing and/or funding media channels, in order to allow media to maintain independence instead of relying on politically affiliated funding.

Empowering *women* and *youth* is seldom considered as a priority by the private sector. However, several initiatives have been ongoing: the Young Businessmen Committee, which embraces the views of young people and organizes training; and, with similar objectives, the respective businesswomen's departments in the various Chambers of Commerce. Focus on youth and women is particularly important for peacebuilding, as shown by other briefs in this series.³⁷ Indeed, these two vital groups need to be granted opportunities in order to create constructive dynamics that may deter individuals from violence.

Meeting the Needs of the Private Sector in Peacebuilding

For the private sector to contribute positively to peacebuilding in Yemen, most entrepreneurs insist that the economy needs to be kept at arm's length from the conflict. This has clearly not been the case. But the conflict has granted the private sector an even more significant role to play, as it has emerged as a major provider of services due to the collapse of the public sector.

The private sector has put significant efforts in providing humanitarian relief to the community, whether through providing funds to CSOs and NGOs or through their own charitable organizations. However, international humanitarian organizations, such as the UN, have provided their humanitarian assistance without regard to assisting the economy and the private sector. While acknowledging the importance of humanitarian aid, two main areas have been overlooked and need to be addressed. The first is using established local businesses for the supply of humanitarian aid. INGOs can use the private sector for purchase of supplies as well as distribution of aid. This would provide a boost for both the private sector and the economy. The second area is the neglect of developmental issues by the authorities, international donors and the private sector. The private sector is in a unique position to assist in developmental issues, such as capacity building; providing funds for start-up businesses; strengthening an independent media; and establishing

³⁶ On the politicization of the media in Yemen in the course of the conflict, see the findings of the Media Team in this project: Fatima Saleh, Scott Preston and Mareike Transfeld (17.04.2020): *The Role of the Media in Peacebuilding in Yemen*, CARPO/YPC Brief 16. Available at https://carpo-bonn.org/wp-content/uploads/2020/04/carpo_brief_16.pdf (19.04.2020).

³⁷ Al-Kholidy, al-Jeddawy and Nevens (27.04.2020); al-Gawfi, Zabara and Philbrick Yadav (27.02.2020).

venues for youth and women to enable them to realize their potential. However, the private sector would need assistance technically and financially by international bodies, such as the United Nations or others.

Most entrepreneurs acknowledge that there is also a need to provide the private sector with means to continue adapting to the constantly changing business environment. The private sector is largely limited to a few sectors of the economy and relies more on imports, even in the manufacturing industries. There is a need to build private sector capacity to venture into new sectors; in turn, this would reduce the requirement for imports and the need for hard currency, a major issue in this conflict. Furthermore, the private sector should be trained and encouraged to venture into sectors that provide jobs, such as the agricultural sector. It could also play a leading role in proposing new products or services, developing new crops or modes of irrigation, new forms of construction or transportation to adapt to climate change and thus help mitigate future conflicts. An ill-prepared business sector and society will surely become serious issues in the coming decades. It is of prime importance that entrepreneurs receive information as to how to adapt to such a changing environment – and this includes the effects of climate change – in order to play a constructive role in the economy, thereby reducing the impact of the war economy and providing employment opportunities. Beyond the need for such analysis and training, there is, as mentioned above, a general need to invest in human capital in order to further the capacities of Yemen to develop economically.

Another concern within the private sector is their inability to form strong clusters with a say in policy-making. Current clusters are the Development Champions and the BBB project. However, many businesspeople interviewed expressed that these clusters were formed late and have had little policy impact on the majority of the private sector, particularly SMEs. Perhaps these clusters need to coordinate and cooperate with CSOs and local authorities to implement change that would positively impact a larger number in the private sector.

Recommendations

Responding to the specific needs of the private sector is crucial and, by most standards, remains a daunting task. Yet, a number of concrete steps can be taken now to ensure some form of improvement and enhance the capacity of entrepreneurs to make positive contributions to society.

Establish a coordinating body between the private sector and CSOs

The private sector and civil society organizations have opportunities to work together for the benefit of the community. CSOs have been working in communities in several areas though charitable, social and cooperative work, especially in agriculture, capacity building, and women and youth empowerment. Civil society actors and the formal private sector should establish a nonpartisan coordinating body that would reduce barriers between them, and coordinate efforts with an aim to intervene across the country in development issues such as capacity

building, investment in agriculture, charitable work and women empowerment (including job provision for women). This coordinating body will have a stronger impact if they work closely with local authorities (see below).

Establish a network between the private sector, CSOs and local authorities

There is a need for the private sector, CSOs and local authorities to coordinate efforts. A mutually beneficial relationship between the three is possible through the establishment of institutionalized networks. A good example of such is The Hadhramawt Fund for the Support of Entrepreneurs, which the private sector established in coordination with CSOs and local authorities, and which has provided training and start-up capital for more than 100 entrepreneurs. Such a network would ultimately strengthen local governance and allow the private sector and CSOs to have a say in local policy-making and practices to the benefit of the community.

Encourage international actors to establish strategies and mechanisms enabling the private sector to support society

If the private sector is to have a larger impact on the economy and positively influence society towards peacebuilding (in particular through securing jobs and providing services), it requires assistance from the international community. The private sector has been negatively affected by the current methods and mechanisms applied by INGOs and international institutions, which have concentrated most of their efforts only on the humanitarian crisis. Amongst the neglected developmental issues are provision of technical and financial assistance to the

private sector, to enable entrepreneurs to venture into new sectors in the economy or to fund start-up SMEs. Furthermore, the private sector would require technical and financial assistance to expand investments into the agricultural sector, which remains Yemen's largest employer.

Providing in-kind assistance for humanitarian purposes, in lieu of cash assistance, has not helped the deteriorating economy. In providing in-kind assistance, UN mechanisms, amongst others, have 'competed' with the local private sector rather than employing it to provide supplies. Rather, international actors should encourage the sustainability of the local market, which remains the only mechanism that is able to meet the needs of the Yemeni population. When providing humanitarian aid, cash transfers should be given priority whenever possible, rather than distribution of in-kind items that distort local market mechanisms. If in-kind humanitarian distribution is necessary, priority should be given to purchasing the items from local manufacturers and suppliers to ensure sustaining local job opportunities, reducing use of youth in combat, reducing the war economy, and ensuring support to local governance via the private sector's payment of taxes and zakat to local authorities.

Mainstream environmental safeguards and corporate social responsibility into any cooperation with the private sector

As has been elaborated in the section on the environment, there is minimal awareness among private sector actors of their responsibilities towards the environment or the effects of climate change on the future business environment in Yemen. Next to increased research

on this important issue – which will be a main driver of instability in the country in future decades – it is important that donors and INGOs collaborating with the private sector mainstream environmental safeguards and corporate social responsibility into their programming. This can include norms and provisions in contracts with the private sector to adhere to certain standards, as well as workshops and further activities to raise awareness and to affect a fundamental change in private sector understanding of its roles and responsibilities for future stability in Yemen.

Engage in a defragmentation of institutions

It is clear that any sustainable attempt at growth and development will need to address the issue of fragmentation of institutions, particularly as regards the Central Bank. The current fragmentation of institutions has caused much uncertainty to the general population, and to the private sector specifically. Fragmented institutions have placed the law on hold, with various regions and factions creating their own regulations outside of the law. The beneficiaries of this situation are the ‘war economy’ and informal economic actors, at the expense of the formal private sector. An international actor needs to take the lead in addressing the fragmentation of Yemen’s most important financial institution – or at least to find an agreement on mechanisms that allow for a resumption of central banking functions if the split of the institution itself cannot be addressed at this point. The UN Special Envoy to Yemen is perhaps best placed to address this concern and should call on the expert advice of private sector clusters, such as the Federation of Chambers of Commerce, the Development Champions and the ‘Bringing Back Business’ project.

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About the Project

This project, which is implemented on behalf of GIZ and by commission of the German Federal Ministry for Economic Cooperation and Development (BMZ), seeks to develop the capacities of Yemeni and international researchers and organizations in researching and advising on peacebuilding in Yemen. Within its framework, a *CARPO Report* on peace requirements in Yemen, as well as five policy briefs, each resulting from a Yemeni-international research partnership, on the role of the following actors in peacebuilding in Yemen, are being developed and published: civil society, women, youth, media and the private sector. For more information, please visit our *website*.

About CARPO

CARPO was founded in 2014 by Germany-based academics trained in the fields of Near and Middle Eastern Studies, Political Science and Social Anthropology. Its work is situated at the nexus of research, consultancy and exchange with a focus on implementing projects in close cooperation and partnership with stakeholders in the Orient. The researchers in CARPO's network believe that a prosperous and peaceful future for the region can best be achieved through inclusive policy making and economic investment that engages the creative and resourceful potential of all relevant actors. Therefore, CARPO opens enduring channels for interactive knowledge transfer between academics, citizens, entrepreneurs, and policy-makers.

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