

CORRUPTION IN YEMEN'S WAR ECONOMY

By: The Sana'a Center for Strategic Studies

EXECUTIVE SUMMARY

Corruption, or the abuse of power for private gain, has been deeply entrenched in the Yemeni political economy for decades. Over the course of the ongoing conflict, however, as the war has fragmented and regionalized the country, state capture in Yemen has become far more complex. In the war economy, patronage networks are now emerging among previously marginal or unknown figures. The financial involvement of Saudi Arabia and the United Arab Emirates has extended patronage across national borders. Alleged collusion between Houthi-affiliated importers and officials allied with the internationally recognized Yemeni government indicates patronage networks that potentially cross the frontlines of the war themselves. As greater numbers and a wider variety of actors profit from illicit activity in the war economy, vested economic interests in continued conflict become more entrenched.

If state capture is among the main drivers of Yemen's war economy, then post-conflict recovery must include a strong anti-corruption agenda. Policymakers must begin planning to address corruption as a part of a potential post-conflict strategy. Given the multi-faceted pervasiveness of corruption in Yemen, any anti-corruption agenda must aim to understand the complex configuration of patronage networks in Yemen, to be introduced gradually, and to get the buy-in of as wide a group of Yemenis as possible. Without these basic building blocks, more specific policy changes such as encouraging transparency or reducing conflicts of interest may founder. Corruption has become deeply entrenched in Yemen; any post-conflict anti-corruption agenda must be great in scope and long-term in vision.

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INTRODUCTION

Corruption, or the abuse of entrusted power for private gain,¹ is endemic in Yemen. In 2017 global anti-corruption watchdog Transparency International ranked Yemen 175 out of 180 countries, with an index score of only 16 on a scale of 0-100 where zero is highly corrupt.² Yemen's index score has trended downward in the past several years, indicating increased corruption.³

Corruption in Yemen is not a new development. For decades the country has witnessed what the World Bank terms “state capture,” wherein an elite minority distorts state institutions for illicit gain.⁴ A narrow range of actors have manipulated Yemen's state institutions, reaping the rewards of their elevated position and dictating the rules of the game.⁵ The country's informal elite networks have become more influential than formal state institutions — another hallmark of state capture.⁶ State capture and lower-level administrative corruption, characterized by everyday bribery and favoritism,⁷ have been underpinned by informal institutions and a tacit cultural acceptance in Yemeni society that the abuse of power in business and politics is simply “how things are done.” Despite the presence of a legal framework that technically prohibits such practices, arbitrary fines and unpredictable bribes to authorities are considered commonplace.⁸

The ongoing conflict in Yemen has not altered the basic workings of this system of state capture. An elite minority of actors continues to operate according to rules of the game that remain fundamentally unchanged from before the conflict. However, the players involved are shifting. Yemen's burgeoning war economy has seen the emergence of previously marginalized or unknown actors. Patronage networks now cross frontlines, with perceived adversaries willingly cooperating for the sake of maximizing private gain. The networks also now extend beyond Yemen's borders. To some extent, these shifting patronage networks — and the war economy that supports them — are a driving force behind the conflict. If Yemen is to recover from this period of violence and instability, corruption cannot go unaddressed.

The following policy brief details the development of Yemen's war economy, new players and dynamics in Yemen's corruption networks, and then offers recommendations to international stakeholders and the Yemeni government to curb the worst excesses of corruption post-conflict.

1) “What is Corruption?” *Transparency International*, accessed June 25, 2018, <https://www.transparency.org/what-is-corruption>.

2) “Corruption Perceptions Index 2017,” *Transparency International*, last modified February 21, 2018, accessed June 25, 2018, https://www.transparency.org/news/feature/corruption_perceptions_index_2017.

3) “Corruption Perceptions Index 2017 Shows High Corruption Burden in More than Two-thirds of Countries,” *Transparency International*, last modified February 21, 2018, accessed June 25, 2018, https://www.transparency.org/news/pressrelease/corruption_perceptions_index_2017_shows_high_corruption_burden_in_more_than.

4) World Bank, *Anticorruption in Transition: A Contribution to the Policy Debate*, (Washington, DC: World Bank, 2000) accessed June 25, 2018, 1, <https://siteresources.worldbank.org/INTWBIGOVANTCOR/Resources/contribution.pdf>.

5) For details regarding corruption in Yemen during the rule of late former President Ali Abdullah Saleh, please see the full white paper of “Combating Corruption in Yemen” at http://devchampions.org/files/Rethinking_Yemens_Economy_No4_En.pdf

6) Glenn E. Robinson et al., *Yemen Corruption Assessment* (Burlington, VT: ARD, 2006) accessed June 25, 2018, <https://photos.state.gov/libraries/yemen/231771/PDFs/yemen-corruption-assessment.pdf>.

7) Abdulwahab al-Kibsi has called this the “inevitability mindset” — Yemeni citizens have come to expect corruption to be so pervasive that they themselves are powerless against it. Abdulwahab Alkebsi and Christopher Boucek, “Corruption in Yemen: Screening of Destructive Beast,” *Carnegie Endowment for International Peace*, last modified September 30, 2010, accessed June 25, 2018, <http://carnegieendowment.org/2010/09/30/corruption-in-yemen-screening-of-destructive-beast-event-3034>.

8) Researcher interview, October 2017.

CORRUPTION IN YEMEN'S WAR ECONOMY

As the conflict in Yemen has evolved since March 2015, so too has its burgeoning war economy. In the war economy, corruption has become systematic and even, to some degree, apolitical. At first glance, actors who are politically and militarily opposed to one another compete for influence on the ground. Beneath the surface, however, the reality is more complex. A wide array of actors shape Yemen's thriving war economy: senior decision-makers, military commanders, established and newly empowered businessmen, local security officials that control checkpoints, commercial bankers, money exchangers, truck drivers and civil servants. Networks of corruption transcend the conflict, seamlessly crossing frontlines and regional borders, with perceived adversaries cooperating for the sake of maximizing profits.

New Actors in Control of State Resources

The conflict has seen state resources – specifically energy resources – come under the control of actors that were previously marginalized or unknown. In northern Yemen, the Houthis have taken control of the import, distribution, and sale of fuel as well as customs and taxation, the telecommunications sector, and car imports.⁹ The internationally recognized government, led by Hadi, nominally controls all areas not controlled by the Houthis. However, for large periods of the conflict, Hadi and members of his cabinet have operated from exile in Riyadh, Saudi Arabia.

In the functional absence of the internationally recognized government, the UAE-backed pro-southern independence body Southern Transitional Council (STC) has been gaining influence in southern Yemen. A large swath of Yemen's southern coastline that stretches from the southwestern Taiz governorate to northeastern al-Mahra governorate – and includes the ports located in Taiz, Aden, Hadramawt, Shabwa, and al-Mahra governorates – is now monitored by the UAE directly or through UAE-backed security actors such as the Hadrami and Shabwani Elite forces. The Hadrami and Shabwani Elite forces also have influence over the key energy facilities in both Hadramawt and Shabwa.¹⁰ Meanwhile, the country's other major energy facilities in Marib, nominally under the authority of the internationally recognized government, are increasingly under the independent control of the governorate's own local authorities.

9) In addition to the customs duties the Houthis charge at Hudaydah Port, they also established a number of internal customs checkpoints over the course of the conflict. The major customs checkpoints are located in al-Bayda governorate, Arhab district in northern Sana'a governorate, and Dhamar governorate. The Houthis also installed other customs checkpoints for travel between the following destinations: Marib–Sana'a, Taiz–Ibb, Abyan–al-Bayda, and al-Dhalea–Dhammar. While conducting research for this paper, several sources spoke to the author about the “probability” that there are individuals (both Houthi and non-Houthi-affiliated) that are exploiting the customs and taxation system the Houthis established for their own personal gain. Though investigations are ongoing, at the time of writing, the research had not yielded enough verified information to present in this paper.

10) During the conflict, the UAE helped establish local security forces across southern and eastern Yemen, providing them with training, arms, equipment, and money. There are the Security Belt forces in Aden, Abyan, and Lahij, as well as the Hadrami Elite and Shabwani Elite forces.

Mechanisms of Corruption in Yemen's War

Inflating Military Payrolls

As in Saleh's era, the inflation of military payrolls with non-existent soldiers ("ghost soldiers") continues to be a major source of patronage for actors operating within Yemen's military and security apparatus. Senior officers, particularly those operating under the banner of the internationally recognized Yemeni government, reportedly exaggerate the number of soldiers under their command in order to pocket the excess salary payments. Government officials are also thought to be complicit in this scheme.¹¹

Besides salaries, senior military commanders receive matériel (weapons, ammunition, fuel, vehicles and other important equipment) based on the number of soldiers that they claim to have under their command. Inflating their payroll results not only in extra salary payments but also extra matériel, which can then be sold at a profit.

The money for inflated payrolls comes primarily from the two dominant members of the Saudi-led coalition, Saudi Arabia and the UAE. The entrance into the conflict of these two wealthy patrons has increased the incentive for various anti-Houthi tribal, military, and security commanders to fabricate the number of men under their command.¹² Lower down the chain of command, anti-Houthi military and security personnel "double dip" – they are registered for payment on more than one command roster, thus receive two separate salaries from two different sources.¹³ As the two wealthy countries continue to fund inflated and duplicated military payrolls, Yemeni patronage networks extend beyond national borders.

There is evidence to suggest that weapons reportedly being smuggled to the Houthis pass through areas nominally under the control of the internationally recognized Yemeni government.¹⁴ While the details of the weapons flows are uncertain (regarding weapon type, quantity, and entry point into the country), the ease with which weapons make their way from the eastern governorates to Houthi-controlled areas indicates willing collusion among actors affiliated with both sides of the conflict. If both parties to the conflict are in fact profiting from the same weapons flows, it suggests that patronage networks have come to transcend the conflict's frontlines.

11) Peter Salisbury, "Yemen: National Chaos, Local Order," *Chatham House*, last modified December 20, 2017, accessed May 23, 2018, 20. <https://www.chathamhouse.org/publication/yemen-national-chaos-local-order>.

12) Tribal leaders providing security forces are also paid through a similar mechanism. Sources with a first-hand knowledge of the composition of anti-Houthi forces stationed in Marib, claim that Saudi Arabia is paying for approximately 50,000 anti-Houthi fighters. This number is almost certainly inflated and is thought to include money paid to secure the backing of local tribes. Researcher interviews, Cairo, February and March 2018.

13) Private conversations with Adeni activist, April and June 2018. To note but one example, this is known to occur in some of Yemen's southern governorates such as Aden where UAE-backed security actors are present. According to a source well-connected with Security Belt (*Hizam Amni*) forces, there are members of Security Belt who receive a salary from their chief patron, the UAE, while also being registered on a separate list with the Yemeni ministry of interior.

14) Notably, there were no weapons seizures off Yemen's western coastline in 2017 or in the first half of 2018. Weapons are being transferred from Yemen's eastern governorates, particularly al-Mahra and Shabwa, to Houthi-controlled areas via al-Bayda or Marib governorates: testament to the fact that "business as usual" continues with regard to weapons smuggling. As long as each party along the way is paid their share – from arms dealers to those driving the trucks and individuals stationed along the road manning the checkpoints – then arms sales run smoothly, no matter where those arms are destined. This conclusion is based on numerous conversations and interviews with tribesmen from shabwa, well-informed contacts with knowledge of known smugglers in al-Mahra, senior military commanders, among others from January until May 2018.

Monopolizing Fuel Imports

After Yemen's oil and gas facilities went offline, the country became dependent on fuel imports. This presented an opportunity for established players and for those looking to capitalize on the country's fuel needs. Fuel imports have become the most lucrative branch of Yemen's energy sector during the conflict.¹⁵

Ahmed al-Eisi is the dominant player in Aden. Al-Eisi is aided in his dominance by his ownership of the top maritime fuel transportation company in Yemen, Alessi Group. Opaque tender bidding processes essentially hand al-Eisi the procurement contract for supplying fuel to Aden: one contract viewed by the author contained conditions that included a tight fuel delivery deadline that no other applicant could meet.¹⁶ With Alessi Group holding a monopoly over Aden Refinery Company (ARC), the sole entity authorized to import fuel into Aden, al-Eisi in effect has a monopoly over fuel imports – and, by default, distribution. Although Hadi in March 2018 nominally “liberalized” fuel imports in areas under the nominal control of the internationally recognized Yemeni government, there have been no visible changes in al-Eisi's monopoly in Aden thus far.

In Houthi-controlled areas, fuel imports are an equally significant source of patronage. Houthi-affiliated fuel importers who were previously unknown to members of the Yemeni business community have over the course of the conflict learned from – and supplanted – established players such as CruGas.¹⁷ These Houthi-affiliated fuel traders now effectively control fuel imports through Hudaydah Port and domestic fuel market sales in areas under Houthi control. They allegedly import low-quality Iranian petrol and diesel in order to sell it on the local Yemeni market for a significant markup.¹⁸ They have reportedly targeted the assets, such as fuel transportation trucks

15) Two key developments in 2015 gave fuel imports added importance: (1) a sudden decline in oil and gas production and the cessation of oil and gas exports due fighting on the ground that also led to the departure of foreign energy companies; and (2) the Houthis' decision to eradicate fuel subsidies on July 27, 2015 (a year after they staged on the outskirts of Sana'a a public opposition campaign against Hadi for doing the same thing) and easing of fuel import restrictions. See Yemen Ministry of Planning and International Cooperation, “Oil Sector Recovery in Yemen Urgently Needed,” *ReliefWeb*, last modified May 2016, accessed June 15, 2018, https://reliefweb.int/sites/reliefweb.int/files/resources/yseu14_english_final_1.pdf; Abubakr al-Shamahi, “Yemen Returns Full Circle as Houthis End Fuel Subsidies,” *New Arab*, last modified July 28, 2015, accessed June 15, 2018. <https://www.alaraby.co.uk/english/news/2015/7/28/yemen-returns-full-circle-as-houthis-end-fuel-subsidies>; “Houthis Cut Oil Subsidies Endangering Support,” *Medialine*, last modified August 3, 2015, accessed June 15, 2018. <http://www.themedialine.org/news/houthis-cut-oil-subsidies-endangering-support>.

16) Private conversations with a Yemeni fuel trader, January-March 2018.

17) Ammar Tawfiq Abdulrahim Mutahar runs CruGas. He is also the listed Deputy General Manager of Tawfiq Abdulrahim Mutahar Group (“TAM”) but is reportedly not on good terms with his brothers who have taken over TAM following the death of their father Tawfiq in 2013. Mohamed al-Absi, “What is the Truth about the Oil Company and the Black Market?” *mohamedalabsi.blogspot.com* (blog), June 7, 2016, accessed June 25, 2018, https://mohamedalabsi.blogspot.com/2016/06/blog-post_28.html.

18) When sold on the black market, the profit margin is particularly large. Mohamed al-Absi, “Since the Disaster of Flotation Fuel in the Stations with Official Pricing: More Black Market Scandals,” *Mohamed al-Absi* (blog), December 5 2016, accessed June 25, 2018, https://mohamedalabsi.blogspot.com/2015/11/blog-post_14.html; Mohamed al-Absi “Document: Mechanism for the Purchase of Oil Company 50% of Shipments Merchants Sold to the Citizen at the Official Price,” *Mohamed al-Absi* (blog), June 28, 2016, accessed June 25, 2018, <https://mohamedalabsi.blogspot.com/2016/06/50.html>.

and petrol stations, of non-Houthi traders.¹⁹ They also reportedly require non-Houthi competitors to pay hefty unofficial last-minute fees to unload at Hudaydah Port.²⁰

Notably, the blockade of Houthi-controlled ports introduced another source of patronage. The Saudi-led coalition would only permit imports if the request had President Hadi's seal of approval. This empowered Hadi's son, Jalal Abdo Rabbu Mansour Hadi. Despite holding no official government position, from March 2015 until the installation of the UN Verification and Inspection Mechanism for Yemen (UNVIM) in May 2016, Jalal reportedly became the man to contact and essentially pay off in order to obtain the necessary fuel import permits.²¹ Houthi-affiliated businessmen reportedly established a good working relationship with Jalal as a result of obtaining fuel import permits for Hudaydah through him. They obtained those permits through middlemen that brokered deals in Sana'a that were then signed off on in Riyadh.

Misusing State Funds

Besides enabling the specific mechanisms of inflating military payrolls and monopolizing fuel imports, the conflict has allowed governing authorities to avoid scrutiny on their use of funds. In some instances, this is merely a lack of transparency: in Marib, for example, the Central Bank of Yemen (CBY) branch is unwilling to disclose the numbers behind its locally sourced revenues and expenditures.²² Also hidden from scrutiny are the customs revenue generated from Yemen's ports, the Houthi-controlled inland customs checkpoints, and the Shahan and al-Wade'ah land borders with Oman and Saudi Arabia.²³

However, governing authorities on both sides have also reportedly actively misused state funds. In 2017, 2 billion Yemeni rials (YR), printed in Russia and en route to the CBY in Aden, were reportedly delivered straight to the presidential palace in Aden; by now the money has allegedly been disbursed via the office of the prime minister

19) Mohamed al-Absi, "Since the Disaster of Flotation Fuel in the Stations with Official Pricing: More Black Market Scandals," *Mohamed al-Absi* (blog), December 5 2016, accessed June 25, 2018, https://mohamedalabsi.blogspot.com/2015/11/blog-post_14.html; Mohamed al-Absi "Document: Mechanism for the Purchase of Oil Company 50% of Shipments Merchants Sold to the Citizen at the Official Price," *Mohamed al-Absi* (blog), June 28, 2016, accessed June 25, 2018, <https://mohamedalabsi.blogspot.com/2016/06/50.html>.

20) Refusal would consequently leave the importer and their fuel shipment stranded as well as faced with the daunting prospect of having to pay expensive demurrage costs. Other additional costs incurred once the fuel shipment is unloaded and ready to be sent out for distribution and sold on the local market include the payment of fees to Houthi officials in each Houthi-controlled governorate and Houthi forces manning the checkpoints that transportation trucks must pass through during the journey from Hudaydah port to the point of destination. Researcher conversation with a well-informed Yemen economic expert with a first-hand knowledge of the distribution of fuel and other commodities after being imported via Hudaydah port, June 2018.

21) Private conversation with two different Yemen economic experts with a detailed knowledge and understanding of Yemen's oil and gas industries in December 2017 and January 2017; "UNVIM"; "United Nations Verification and Inspection Mechanism for Yemen: Update May 2016," *United Nations Verification and Inspection Mechanism*, last modified May 2016, accessed June 15, 2018, <https://www.vimye.org/docs/UNVIM%20Update%20May%202016.pdf>.

22) Researcher interview with confidential source with close ties to CBY in Aden, June 2018. Marib, one of Yemen's oil-producing regions, reached a deal in 2017 with the internationally recognized government allowing the governorate to keep a share of the revenues from oil produced in Marib. As of this writing, however, ongoing disputes between the CBY branch in Marib and the branch in Aden have meant that instead of transferring 80 percent of oil revenues to the Aden branch, the Marib branch has refused to transfer any.

23) Peter Salisbury, *Yemen's Cratered Economy: Glimmers of Hope?* (Washington, DC: Arab Gulf States Institute in Washington, 2018) accessed June 25, 2018, https://www.agsiw.org/wp-content/uploads/2018/02/Salisbury_Yemen-Cratered-Economy_ONLINE-1.pdf.

as “discretionary spending.”²⁴ For a time, the internationally recognized government was receiving payments for its stake in the Masila oilfield in Hadramawt directly into a private bank account held at AlAhli bank in Saudi Arabia in President Hadi’s name.²⁵

The Houthis, meanwhile, have been accused of diverting money from the CBY in Sana’a to pay for their military campaign.²⁶ The money is allegedly used to pay the salaries of Houthi military and security commanders and their respective fighters. It was also used to pay for thousands of Houthi-sanctioned civil servants installed by the group in the Ministry of Interior in Sana’a as part of a broader strategy in which they sought to replace Saleh loyalists with Houthi supporters over the course of 2016 and 2017.²⁷ The Houthis have reportedly installed many young, inexperienced, unqualified individuals in senior positions at the ministry as part of an attempt to weaken Saleh and his allies’ hold over north Yemen’s military and security apparatus, with the Republican Guard one of the main targets.²⁸ This effort to staff important institutions with supporters served both as an effort to shift power and also as a system of patronage to provide employment and comparatively stable government salaries to Houthi supporters.

Yemen’s war economy presents a challenge to any policymaker concerned with building peace in Yemen. It is clear that no one individual or group is solely culpable for corruption. Instead, what external analysts might see as corrupt practices are widely accepted as normal transactions – simply the cost of doing business. More importantly, the conflict’s shifting, expanding networks of patronage may form the basis of the kind of informal institutions that could enable corrupt practices in a post-war context. This could potentially endanger the prospect of peace. Corruption, therefore, must be an integral part of any post-conflict agenda.

24) In 2016, then-CBY Governor Monasser al-Quaiti, ordered a total of YR400bn new banknotes, worth approximately \$1.2bn at the time. In 2017, there were several separate shipments of Russian-printed Yemeni Rials, presumably tied to the order placed by al-Quaiti. Rather than being deposited straight into the CBY in Aden, YR2bn was reportedly delivered straight to the presidential palace in the Masshiq area of Crater district, Aden. According to a source with close ties to the CBY in Aden, the majority of this Russian-printed money has now reportedly been disbursed via the office of Prime Minister Ahmed Obaid bin Dagher as “discretionary spending.” The UAE supposedly grew increasingly frustrated with Hadi and the internationally recognized Yemeni government in 2015 over the lack of accountability over donor funds and government spending, to the point in which the UAE decided to limit the direct financial support it provided to Hadi.

25) Researcher interview with confidential source with close ties to CBY in Aden, June 2018. See also: Salisbury, *Yemen’s Cratered Economy*.

26) This particular accusation is what prompted Hadi to announce the relocation of the CBY headquarters from Sana’a to Aden and the dismissal of former CBY Governor Mohammed bin Hammam, see: Hadeel al-Sayegh, “Yemen President Names New Central Bank Governor, Moves HQ to Aden,” *Reuters*, last modified September 18, 2016, accessed May 23, 2018, <https://www.reuters.com/article/us-yemen-cenbank/yemen-president-names-new-central-bank-governor-moves-hq-to-aden-idUSKCN1100WB>.

27) Researcher interviews, Cairo, February and March 2018; Researcher WhatsApp conversation with an employee of the Houthi-controlled Ministry of Interior in Sana’a, in October, November, and December 2017.

28) Researcher interviews, Cairo, February and March 2018; Researcher WhatsApp conversation with an employee of the Houthi-controlled Ministry of Interior in Sana’a, in October, November, and December 2017.

CONCLUSION AND RECOMMENDATIONS

As the war in Yemen continues, the main sources of patronage and power — control over state institutions and access to major sources of revenue — remain unchanged from Saleh’s era. Weapons flows, tendering processes, fuel subsidies and falsified military payrolls continue to enrich the few at the expense of the many.

However, Yemen is witnessing a shift in the individuals involved. Patronage networks have become more complicated. Previously marginal or unknown figures are making inroads into traditional means of illicit profit. Parallel state institutions have emerged, affording new instances of state capture. The entrance of two wealthy regional patrons — Saudi Arabia and the United Arab Emirates — has changed the calculus of wealth. Reported collusion between Houthi-affiliated importers and senior officials allied with the internationally recognized Yemeni government, if true, represents adversaries at war cooperating for purposes of private gain.

Despite the grim reality of ongoing corruption in a conflict that shows little sign of abating, policymakers must nevertheless begin now to consider how to build a lasting peace. If corruption is among the main drivers of the conflict, then post-conflict recovery must include an anti-corruption agenda.

Given the complex nature and wide reach of corruption in Yemen, any anti-corruption agenda must seek to understand the complex configuration of patronage networks in Yemen, to be introduced gradually, and to get the buy-in of as wide a group of Yemenis as possible. Without these basic building blocks, more specific policy changes such as encouraging transparency or reducing conflicts of interest may founder. Corruption has become deeply entrenched in Yemen; any post-conflict anti-corruption agenda must be great in scope and long-term in vision.

Guiding Principles

Acknowledge Complexity

Any attempt to address the abuse of power in Yemen should include a detailed analysis of the complex, context-specific mechanisms of corruption at the heart of Yemen’s war economy. Rather than shying away from the time-consuming and difficult task of disentangling the broad, ever-evolving political and economic relationships among the actors engaged in corrupt activity, policymakers must attempt to understand such complexity. A well-developed contextual understanding will allow policymakers to weigh up potential benefits and anticipate pitfalls when developing a anti-corruption strategy. Constant observation and analysis is key to keeping pace with developments on the ground.²⁹

29) This policy brief is meant to give policymakers an overview of the corruption mechanisms that have continued while the conflict rages. By the time it is published, some of those mechanisms are likely to have evolved further still.

Implement Gradually

State capture should be rolled back gradually, with a phased implementation of anti-corruption reforms. It would be unrealistic and perhaps counterproductive for policymakers to introduce a sudden and aggressive anti-corruption strategy. Actors currently profiting from the war economy may resist wholesale changes. Worse, rushed or superficial efforts to combat corruption may lead to grave policy errors where instead of restraining the actions of corrupt individuals the policies lead to greater suffering among the Yemeni people, who are already dealing with the world's worst humanitarian crisis.³⁰

Engage as Many Actors as Possible

Given the widespread reach of corruption in Yemen, anti-corruption efforts should not selectively target any single actor, but should instead seek to have an impact across the system as a whole. While efforts should certainly be made to curb the activities of actors known to be engaging in corruption, such actors should not be singled out exclusively. Individually targeting actors will leave policymakers open to accusations of political bias. If any breakthrough is to be made in creating short- or long-term peace, policymakers will need the buy-in of as many actors as possible.

Recommendation for the Government of Yemen's Post-Conflict Policies

Build on the Existing Anti-Corruption Framework in Yemen

- Strengthen Yemen's existing state-run anti-corruption agencies, including the Central Organization for Control and Auditing (COCA), Supreme National Authority for Combating Corruption (SNACC), the Real Estate Authority, and the Financial Information Unit (FIU).
- Sufficiently fund the anti-corruption agencies to provide training and institutional capacity-building programs.
- Encourage greater coordination and data-sharing among already established anti-corruption agencies.
- Ensure that all anti-corruption agencies operate independently of government officials.

³⁰) One example might be a policy to clamp down heavily on Yemen money exchangers/hawala networks due to concerns over the Houthis use of money exchangers to access foreign currency and pay exporters. Money transfer transactions are a critical lifeline for beleaguered citizens outside the commercial or political class. Regular citizens rely on remittance flows — the backbone of the money exchange system — to purchase essential commodities, including food and water. Any ill-considered disruption of these money flows may sever one of the few remaining lifelines for a broad subset of Yemenis whose interests are often ignored when discussing corruption-deterring measures.

Encourage Transparency and Accountability

- Conduct a recurring, independent audit for all state-owned and state-run companies.
- Establish a government agency to process freedom of information requests, in accordance with Law No. 13 of 2012 concerning the Right of Access to Information.
- Create a new regulation whereby appointed officials publicly release annual personal financial statements during their tenure.
- Make publicly available the details of all government tenders and the details of the salaries and bonuses of all senior government staff.
- Establish a system issuing national identification numbers to Yemeni citizens and to non-Yemeni residents who have secured a residency visa. Link the number to personal financial information and biometric data stored on a secure and confidential government database.
- Officially register and publish all government assets, including weapons inventories.

Reduce Conflicts of Interest

- Implement conflict of interest measures to ensure that personal relationships between government officials responsible for tenders and companies competing for those tenders do not influence the awarding of contracts.
- Legally obligate government employees to relinquish control of any private businesses.
- Regularly rotate on a mandatory basis all positions that are central to economic control and management (e.g. in state-run energy companies).
- Implement new regulations establishing equal employment opportunities within the public sector.
- Ban the issuing of state-run contracts to senior military commanders.
- Gradually dismantle checkpoints to reduce the incidence of bribes.
- Reform, unify and gradually downsize the military and security apparatus.

Improve the Management of Government Finances

- Establish a system for collecting government receipts and controlling the disbursement of money to the different branches of government and state institutions.

- Implement a new national budget and make the details of it publicly available.
- Ensure tight budgetary controls and supervision over government revenues and expenditures.
- Restore the CBY to a fully functioning independent national entity. While the government should set spending priorities, the CBY should be in charge of the distribution of these funds according to the national budget.
- Deposit all revenues generated by the respective central governing authorities in the local CBY branch (e.g. in Aden, Marib, Hadramawt, Sana'a, or Taiz) rather than redirecting them to government officials' offices.
- International stakeholders must draft, deliver, and monitor implementation of a long-term financial assistance package that makes assistance conditional on continued adherence to existing anti-corruption legislation. Focus on channeling donations through local government institutions, local NGOs or INGOs on the ground in Yemen, when and where appropriate to minimize the opportunities for bureaucratic corruption.
- Closely monitor financial assistance provided for post-war reconstruction and local development projects. Make such assistance conditional upon progress toward stated outcomes.

Decentralize Economic Power

- Empower local authorities, specifically local councils, to deliver public services and implement local development projects.
- Aid the creation and expansion of small and medium-sized enterprises (SMEs) to facilitate economic diversification and economic growth.
- Empower anti-corruption agencies to monitor fuel import companies, investigating discrepancies over registered and real owners. Their findings, along with accurate company details, should be made publicly available.

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ABOUT THE “RETHINKING YEMEN’S ECONOMY” INITIATIVE

This two-year project, which was launched in March 2017, is an initiative to identify Yemen’s economic, humanitarian, social and developmental priorities in light of the ongoing conflict in Yemen and to prepare for the post-conflict recovery period. The project aims to build consensus in crucial policy areas through engaging and promoting informed Yemeni voices in the public discourse, and to positively influence local, regional and international development agendas.

The project has four components: (1) in the Development Champions Forums, Yemeni experts and professionals in social and economic development will identify key issues for intervention and provide recommendations towards tackling these issues; (2) in the Research

Hive, the project consortium will – based on the issues and recommendations of the Development Champions – conduct research and identify best practices and lessons learned from international experiences to create knowledge capital for the Rethinking Yemen’s Economy initiative; (3) in the public outreach component, the consortium will implement consultation workshops with local stakeholders, including the private sector, youth and civil society organizations; moreover, campaigns through both traditional and social media outlets will be conducted to engage the wider Yemeni public; (4) and through regional and international engagement the consortium will inform stakeholders of project outcomes and aim to motivate and guide the international community’s policy interventions to the greatest benefit of the people of Yemen.

Implementing Partners

The project is implemented by a consortium of the following three partners:



The Sana’a Center for Strategic Studies is an independent think-tank that seeks to foster change through knowledge production with a focus on Yemen and the surrounding region. The Center’s publications and programs, offered in both Arabic and English, cover political, social, economic and security related developments, aiming to impact policy locally, regionally, and internationally.
www.sanaacenter.org



DeepRoot Consulting is a dynamic social enterprise passionate about Yemen’s development. DeepRoot aims to help international development actors, the private sector, local civil society organizations and the Yemeni Government anchor their interventions in a deep understanding of Yemen’s national and local contexts, and international best practices. Our leadership team and advisory board has decades of combined experience working in Yemen and internationally in the public, private and nonprofit sectors.
www.deeproot.consulting



The Center for Applied Research in Partnership with the Orient (CARPO) is a Germany-based organization whose 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 Middle East. The CARPO team has long-standing experience in the implementation of projects in cooperation with partners from the region and a deep understanding of the Yemeni context.
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