Beyond the Business as Usual Approach:

PRIVATE SECTOR ENGAGEMENT IN POST-CONFLICT YEMEN

Amal Nasser

Edited by Spencer Osberg

August 2018
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## ACRONYMS

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<th>Acronym</th>
<th>Description</th>
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<tr>
<td>CBY</td>
<td>Central Bank of Yemen</td>
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<td>CSO</td>
<td>Central Statistical Organization</td>
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<td>DPPR</td>
<td>Development Plan for Poverty Reduction</td>
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<tr>
<td>ECF</td>
<td>Extended Credit Facility</td>
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<tr>
<td>ERP</td>
<td>Economic Reform Program</td>
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<td>FDI</td>
<td>Foreign direct investment</td>
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<tr>
<td>GDP</td>
<td>Gross domestic product</td>
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<tr>
<td>ILO</td>
<td>International Labor Organization</td>
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<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
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<tr>
<td>OCHA</td>
<td>Office for the Coordination of Humanitarian Affairs</td>
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<tr>
<td>SMEs</td>
<td>Small and medium enterprises</td>
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<tr>
<td>US$</td>
<td>United States dollar</td>
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<tr>
<td>WTO</td>
<td>World Trade Organization</td>
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<tr>
<td>YR</td>
<td>Yemeni rial</td>
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Yemen has spent much of the past 60 years embroiled in armed conflict and political crisis, with this cyclical instability and insecurity among the primary factors that has stymied both private sector maturation and the establishment of a strong state with well functioning public institutions. The vast majority of the Yemeni private sector is made up of small or very small businesses, even while providing almost 70 percent of working Yemenis with their livelihood. Rural agriculture has traditionally provided work for more than half the population.

Since the discovery of commercially viable oil fields in the mid-1980s and the ramping up of oil production in Yemen through the 1990s, the country’s annual gross domestic product (GDP) has been heavily influenced by its oil production levels and the volatility of global energy markets. Oil exports create a “Dutch disease” situation in the country, where the foreign currency from oil sales inflated the value of the domestic currency, inhibiting the private sector’s development of export-led growth. The higher value of the Yemeni rial also made imports relatively cheaper, impeding the development of local industry. These factors combined to leave Yemen dependent on imports for most goods.

There are numerous other challenges to private sector development, including bureaucratic obstructions, weak infrastructure, a largely unskilled workforce, a poor investment climate and lack of financing, an economy overly dependent on oil, corruption, a weak state, and a rent-seeking elite class with vested interests in stifling reforms.

There has also been some progress in the past 25 years: some import barriers have been removed and customs tariffs simplified; reforms to business registration and the elimination of minimum capital requirements brought down the time and cost to start a business; corporate taxes were reduced significantly and harmonized; there was a marked decrease in property related disputes; the market for Islamic banking services was opened; the government established a credit registry and introduced a Microfinance Banking Law.

Nevertheless, the impacts of the ongoing conflict, which began in 2014 and intensified significantly in 2015, have been devastating. Economic output has contracted a cumulative 40.5 percent since 2015. Suspended oil exports have decimated public revenues and cut off the country’s primary supply of foreign currency. The depletion of reserves and a domestic cash liquidity crisis in turn led to the Central Bank of Yemen...
(CBY) suspending most public sector salaries in August 2016 and ending import financing. Coupled with the relocation of the central bank headquarters from Sana’a to Aden in September 2016, this crisis hobbled the CBY’s ability to protect the value of the Yemeni rial (YR). The rial thus fell from YR 215 to US$1 at the beginning of the conflict to roughly YR 490 to US$1 as of the end of June 2018.

With currency depreciation the price of imports has spiked and per-capita purchasing power has plummeted. The price of imports has also been heavily affected by a Saudi-led coalition sea blockade of (and now military operation to retake) the country’s northern ports – most significantly Hudaydah and Saleef – which has dramatically reduced commercial and humanitarian deliveries through these ports, and increased the time and cost of delivery for those imports that do get through. All of these factors have facilitated a situation today where 8.4 million Yemenis are on the edge of famine and 22 million are in need of humanitarian support, in what the United Nations has called the world’s largest humanitarian catastrophe.

Increased costs for businesses have been spurred by a lack of security and a scarcity of business inputs, while a loss of customer base and demand as well as general purchasing power decline has driven a loss in revenue. Physical damage to public and private infrastructure has also severely affected the ability of businesses to operate. As of 2017 these losses associated with the conflict had let to private sector businesses on average cutting their working hours in half, with layoffs estimated at 55 percent of the workforce, while more than a quarter of private sector firms engaged in industry, trade and services have ceased to operate. Foreign currency shortages and a domestic currency liquidity crisis have also presented importers with increased challenges and costs. Even faced with these challenges, however, the Yemeni private sector is still one of the primary factors stopping the dire humanitarian crisis in Yemen from being far worse, facilitating the import of the vast majority of the country’s food and fuel.

In previous studies of impact of conflict on a country’s private sector, it was found that war tends to create a power vacuum that allows space for illegal trade and the rise of a ‘war economy’, in which grey and black market actors accrue large sums of liquidity, and draw such out of the formal economy. Even once peace is achieved, doubts regarding its durability classically dissuade investments in the country, in particular investments in fixed, illiquid assets. However, without private sector development, reconstruction, rehabilitation and socio economic and social stability are highly unlikely post conflict.
An incipient private sector cannot be expected to, of itself, redevelop and drive economic growth immediately after conflict resolution. Thus, this paper makes the following recommendations to the Yemeni government and international stakeholders regarding economic interventions to spur post-conflict private sector development in Yemen.

Key Recommendations

- **Interventions must be conflict-sensitive.** Yemen’s multifaceted and prolonged conflict has weakened both the formal state and formal private sector activity, allowing the emergence of new players in a war economy. Early interventions must thus be vetted to ensure they do not empower conflict actors and potential peace spoilers, would curb development in the formal private sector and threat overall socio economic stability. International actors intervening on the ground should establish an inclusive mechanism in which local business actors are meaningfully engaged to create strong buy-in in enhancing peacebuilding and enabling appropriate business environments.

- **Build local business capacities to implement programs and create jobs.** Stakeholders should work to ensure that local businesses have the necessary tools and requisite skills to take advantage of international interventions. This should include facilitating the transfer of knowledge, specifically knowledge related the use of technology in business, through providing education and training programs for Yemen’s private sector labor force.

- **The agriculture sector should be the target of any early intervention.** Agriculture, which employed the largest portion of the Yemeni workforce prior to the conflict, has been particularly adversely impacted by the dynamics of the war in Yemen and should be the target of any early intervention to boost the economy. For instance, programs could be established to support microbusinesses in agriculture and offer training and technical assistance for farmers and those hoping to establish small-scale and self-sustaining projects.

- **Target SMEs and entrepreneurs.** Private actors should assist the government and international donors in developing joint financial mechanisms to finance small and medium enterprises (SMEs) and business incubators. These should also specifically target and assist women and youth to start businesses, given how underrepresented these groups are in private sector activities.

- **Ensure private sector access to finance.** Over the short run, the Yemeni government and all relevant stakeholders should support a full return of

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a functioning financial sector, including stabilizing the Central Bank of Yemen. Over the longer run, efforts should be directed to lead reforms on banking regulations and ensure an appropriate platform for foreign investors to establish banks in country, as well as for remittances influx. In this regard, the Yemeni government should establish for a mechanism for investment guarantees in order to attract the remittances of the Yemeni diaspora to contribute to country economic recovery.

• **Yemen’s experienced microfinance institutions should be a key target of all stakeholders for driving more financial inclusion across Yemen.** Microfinance banks and companies should be also empowered to offer financial services for individuals and cash management services for smaller businesses. Moreover, mobile banking in Yemen should be enhanced to expand access to low-income borrowers.

• **Reform the business environment.** The government should establish a business-friendly taxation system and anti-corruption institutions and encourage investments through easing some regulations that restrict foreign investments and discourage business startups. In particular, the government should engage with and invest in transformative sectors such as transportation, financial services, telecommunications, tourism, power production, and food processing and distribution.
Even before the current conflict, private sector development in Yemen faced many severe and interrelated challenges. These included bureaucratic obstructions, weak infrastructure, a largely unskilled workforce, a poor investment climate and lack of financing, an economy overly dependent on oil, corruption, a weak state, and a rent-seeking elite class with vested interests in stifling reforms. Now, after almost four years of civil war and regional military intervention, Yemen’s economy has been devastated and the formal private sector with it. And yet many formal and informal businesses continue to operate; indeed, the private sector’s resilience is a major reason that the country’s humanitarian crisis – the largest in the world – is not precipitously worse.

In the event of an end to the conflict, rapid investment and development of the private sector will be necessary to create jobs, rebuild infrastructure, shift the flows of finance away from the war economy and back to formal markets, and to help bring overall socioeconomic stability that will contribute to a durable and long-lasting peace. Preparations for such must thus begin with urgency in order to be ready to seize the window of opportunity that will open immediately after the guns go silent.

With this in mind, this paper examines other post-conflict developing nations for lessons that can be applied to the Yemeni context. It assesses the factors weighing on private sector development in Yemen over time, including challenges to the business environment and attempted reforms programs. The paper then lays out the impacts of the 2011 uprising in Yemen, the ensuing political crisis and the current conflict on the economy and the private sector. Following this, recommendations are offered to both the Yemeni government and international stakeholders regarding steps that can be taken to revive and develop the private sector post conflict.
COMPARATIVE EXAMPLES OF PRIVATE SECTOR ENGAGEMENT POST CONFLICT

The Impact of War on Private Sector Activity

The effects of war on a country’s economy and private sector depend on where the war is taking place. International wars that take place outside of a country are usually considered an economic stimuli, while the countries within which the violence occurs usually suffer grave economic consequences. For that reason, civil wars have the most devastating economic impacts.\(^2\)

The post-war situation of the private sector can vary depending upon two interrelated phenomena that emerge in a prolonged war: the creation of a power vacuum that allows space for illegal trade, and the problems resulting from the uncertainty in the market and the fear of the unsustainability of peace. For example, in post-conflict situations, having an unjust peace settlement that does not seem tenable in the long-term prompts investors to take their money out of the country in capital exodus.\(^3\)

By dissolving competitive markets and fair trade, the war environment opens up room for illegal traders to thrive. In an application of the “bad news principle”\(^4\), the uncertainty that occurs during wartime makes liquid assets much more favorable for illegal traders because they can be moved out of the country if the peace dissolves. Furthermore, the same impulse that motivates illegal traders to take liquidity out of the country also spurs the private sector to transfer assets to other countries (human, physical and financial) and to be averse to fixed investments in deteriorated economies until infrastructural problems are solved.

Even when capital holders do pursue post-conflict investments, they tend to choose the least risky investments: those that are relatively easier to move to safety. For this reason, the agriculture industry is

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\(^3\) Collier, “Economic Consequences.”

usually among the hardest hit industries in wartime.[5] This has been evident in Afghanistan where anticipation of violence and instability caused by the weakness of the state discouraged further investment and limited the aspirations of existing businesses to mere survival.[6]

The relationship between the private sector and post-conflict environments is, however, a two-way street, in that the private sector can and should be utilized to help secure peace in post-conflict situations. Local businesses in post-conflict countries can and should be engaged in the peace building process.[7] Berdal and Mousavizadeh offer an excellent analysis in which they dissect the dialectic between the development of the private sector and reconstruction efforts.[8] They conclude that the one cannot be brought about without investing effort in the other. In addition, Gerson argues for the necessity of having a robust private sector in a post-conflict situation, drawing attention to the fact that a functioning private sector will reduce unemployment and help prevent violence from resurfacing.[9]

Where weak states are incapable of asserting authority over their entire geographic area, a vacuum of supply is created for services and utilities, especially for basic needs like water and electricity, while demand increases. The absence of basic utilities will also slow the reconstruction process and prevent the private sector from growing. This is the anticipated case in a Yemen, which already suffered from electricity and water shortages prior to the current conflict. Furthermore, because of the weakness of the state, opportunist non-state and private sector actors will respond to this demand; the results of this splintered market and its effects on the reconstruction process will depend highly on the ability of the state to regulate it.[10]

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Every conflict is unique, making it almost impossible to design an all-encompassing model of private sector engagement for general application in post-conflict scenarios. A familiarity with the nuances and particularities of the conflict is necessary to be able to specify how to engage with the private sector in a post-conflict situation and to ensure its place within the reconstruction process.

Private Sector Engagement in Post-Conflict Rwanda

The paralyzing breadth of the Yemen conflict bears some similarities to the 1990s Rwandan conflict. As the second-top improver in the World Bank *Doing Business*[^11] survey in 2011, and a star pupil of the Washington Consensus[^12] through the collaboration of its government with the private sector, Rwanda has succeeded in some ways where many have failed, and provides experience to learn from.

Among the similarities with Yemen was Rwanda’s inadequate electricity sector and the lack of access to electricity. In this area, Rwanda provides a successful model of state-private sector engagement because the state managed to gain the interest of private investors despite their aversion to fixed investments, especially soon after the conflict is resolved.[^13]

The key to this process was the establishment of subsidized micro-grids. Foreign subsidies implemented by the German development agency Gesellschaft für International Zusammenarbeit incentivized local investors to invest in making electricity accessible in their respective areas, while also allowing them to see beyond the usual barriers to the potential profits of the electricity sector. The success of this model also lies in the conditions made by the subsidizers: for example, the subsidies were only made after the construction of the micro-grids and were weighed to the impact the micro-grids had on a specific area, thus motivating investors to supply more people with electricity.[^14] The government also intervened, through its public utility Rwanda Energy


Group, to reduce risk by buying the energy generated by these microgrids and handling their sale and distribution, relieving investors from worrying about fluctuations in demand.\footnote{Williams et al., "Private Sector Investment."} This example shows how careful foreign investment coupled with the appropriate state regulations can be effective in post-conflict reconstruction, while also including the local private sector in the process. The electricity supplied mainly by the private sector will allow new businesses to emerge and eliminate one of the main obstacles to further self-generated private sector development.\footnote{For a detailed analysis of microgrids in Rwanda see: Maurice Pigaht and Robert J. van der Plas, "Innovative Private Micro-hydro Power Development in Rwanda," \textit{Energy Policy} 37, no. 11 (2009): 4753-4760, accessed July 2, \url{https://doi.org/10.1016/j.enpol.2009.06.059}.}

Some claim that one of the reasons behind the success of the collaboration between the private sector and the government, and what makes Rwanda a unique model, is not liberalization but in fact measured and effective state involvement. In the Rwandan experience it was observed that an incipient private sector could not be expected to, of itself, drive economic development immediately after conflict resolution, and that private-sector led development could even be harmful.\footnote{Booth and Golooba-Mutebi, "Developmental Patrimonialism."} After the end of the conflict, the ruling Rwandan party (the Rwandan Patriotic Front) established what would be the country’s largest holding company (Tri-Star Investment later known as Crystal Venture Ltd) in 1995. Since the company was big enough to enter into numerous sectors, the privatization process in Rwanda was more controlled than in other african countries. This enabled Rwanda to avoid the failures of “the African Model.”\footnote{Booth and Golooba-Mutebi, "Developmental Patrimonialism."} For example, in addition to basic public utilities like water, the state owned company would also play a key role in re-establishing the telecommunications sector in 1998, by partnering with the South African carrier MTN.\footnote{"Rwandan Patriotic Front’s Business Empire," \textit{Economist}, March 2, 2017, accessed July 2, 2018, \url{http://www.economist.com/business/2017/03/02/the-rwandan-patriotic-fronts-business-empire}.} While this state-owned company approach proved successful in managing private sector development in Rwanda, and was implemented by a unified government, in Yemen it may face some challenges. In Rwanda, there was a single “winner” that emerged from the war to form the next government; it is highly unlikely such will have in Yemen, where the future government post-conflict will almost certainly be some form of a fragmented power-sharing arrangement, within which the regional parties involved may be intensely skeptical of large centralized government entities.
Lessons from the Bosnian Example

Although some contend that the Rwandan experience had many flaws, especially in terms of favouritism and clientelism,[20] the complete absence of the state from the privatization process can have grave consequences. In Bosnia, for instance, the same paradox was encountered, i.e. an urgent need of basic public utilities post conflict and the absence of investor interest in that field. Because of the weakness of the state, the international community largely bypassed the Bosnian state and dealt directly with non-state actors – both private sector and NGOs – and providing them with international aid. This had the effect of undermining state authority and legitimacy, which in turn delayed the enactment and effective implementation of official market regulation. This created market risks that deterred investors, but more importantly left Bosnia unable to meet the compliance standards necessary to join the European single market, which thus stalled domestic private sector development.[21]

Unlike Rwanda, where the generally unified and empowered government was able to build back functioning state institutions relatively quickly, state weakness in Bosnia prolonged and delayed reestablishment of state institutions, such as a police force, the central bank, etc.[22] The absence of institutions keeps governments weak and unreliable and thus keeps the level of risk high, which drives away investment.


RECENT PRIVATE SECTOR DEVELOPMENTS IN YEMEN

General Limitations to Economic Analysis in Yemen

Among the challenges of a historical analysis of private sector development in Yemen is that while some data is available it is often inadequate to paint a thorough and precise picture of the private sector’s various facets and development trajectories. As the World Bank noted in a 2000 report that sought to assess the Yemeni private sector and set development goals for the future, the data available did “not give a sense of the real dynamics of the private sector.”[23] The World Bank noted that while there was “reasonable” information available related to the industrial sector, there was no general data on the services sector, “very little” known about microenterprises, and little to nothing known about other areas of the private sector. In noting the limits to the accuracy and reliability of its own study, the World Bank stated that: “Much of the required data is outdated, inaccurate or not available. In the absence of concrete data, staff estimates have been used, and are to be treated as rough indicators.”[24] A senior manager at the Central Bank of Yemen, interviewed by the researchers, stated that the Central Statistical Organization (CSO) in Yemen – the official body tasked with statistics gathering – “lacks a centralized data system to reflect the real dynamics in all branches composing the private sector.”[25] Thus, the figures contained within this report – unless otherwise noted – should similarly be understood as approximations rather than precise representations of reality.

Yemen has also spent much of the past 60 years embroiled in armed conflict and political crises,[26] with this cyclical instability and insecurity among the primary factors that has stymied both private sector maturation and the establishment of a strong state with well


[26] Major conflicts in Yemen over the past 60 years include: the 1962-1970 civil war in North Yemen; the 1963-1967 War of Independence in South Yemen; the 1972 war between North and South Yemen; the 1979 war between North and South Yemen; the 1986 civil war in South Yemen; following the 1990 unification of North and South Yemen, the 1994 Yemen Civil War; the 1995 Eritrea-Yemen war over the Hanish Islands; the 1998 Saudi-Yemen conflict and tribal uprising in Yemen; the six Sa’ada wars from 2004-2010; the 2011-2012 Yemeni uprising, and the ongoing conflict which began in 2014.
functioning public institutions.[27] Being a conflict-affected fragile state[28] leads to further challenges in developing a definitive economic analysis of the private sector, given that the use of certain terms to categorize various types of economic activity is more problematic in relation to Yemen than to developed countries. For instance, the line between the “formal” and “informal” economy or “official” and “unofficial” policy can be difficult to define in a country where the presence of the state itself is tenuous.[29] As Steven Schoofs notes, “in situations where the state’s regulatory capacity is limited, the dividing lines between state and non-state, private and public as well as legal and illegal become increasingly blurred.”[30] As such, the terms used in this report to categorize and define the various subdivisions of the Yemeni private sector – particularly in discussions of the formal and informal economies – should be understood to contain a degree of ambiguity, particularly at the edges of their application.

### General Private Sector Status in the Year 2000

In 2000, the Federation of Yemeni Chambers of Commerce reported that there were some 90,000 private sector establishments in Yemen (of which the Federation claimed two-thirds were its members).[31] This number, however, is difficult to reconcile with a report just four years later from the CSO that asserted that there were roughly 290,000 private sector businesses that employed some 600,000 people (of which just 5 percent of the employed were women).[32]

A general point of agreement between various statistics from the early 2000s, however, was that the vast majority of the Yemeni private sector was made up of small or very small businesses. The CSO, for instance, estimated that 97 percent of the Yemeni private sector was made up

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of micro, small and medium sized enterprises, which it defined as businesses employing less than 25 people. Meanwhile, a 2000 World Bank report estimated that only 1 percent of private sector industrial firms employed 10 or more people, and that there were “very few” large enterprises.\[33\] Industrial centers were located in and around Sana’a, Taiz, Aden and Hudaydah, with output serving almost exclusively domestic consumption.\[34\]

At this time the industrial sector was the largest target for private sector investment, totaling 57 percent of total investment. This was followed by services (20 percent), tourism (14 percent), agriculture (7 percent) and fisheries (2 percent).\[35\] Despite the relatively low investment in agriculture this area of the private sector was estimated to provide some 58 percent of employment in Yemen.\[36\] Private sector investment as a whole was equivalent to roughly 16 percent of GDP in 1999\[37\], while for that year the private sector as a whole made up some 54 percent of Yemen’s total GDP, and 74 percent of non-oil goods and services output.\[38\]

Importantly, since the discovery of commercially viable oil fields in the mid-1980s and the ramping up of oil production in Yemen through the 1990s, the country’s annual GDP has been heavily influenced by its oil production levels and the volatility of global energy markets. Between 1995 and 2005, the private sector share of total GDP fluctuated as much as 10 percent year-to-year (dropping from 66 percent to 56 percent in 1995-96), while over this same decade the private sector share of non-oil annual GDP remained almost a constant 74 percent, not fluctuating more than one percent year-on-year.\[39\] From 1995 to 2005 Yemen averaged roughly 5 percent GDP growth per year, which saw the value of the non-oil private sector contribution to GDP rise from US$2.81 billion to US$8.38 billion (in current US$).\[40\]

\[33\] World Bank, Yemen: Comprehensive Development Review.
\[34\] World Bank, Yemen: Comprehensive Development Review.
\[35\] The relative distribution of private sector investments is based on 1998 figures. See: World Bank, Yemen: Comprehensive Development Review.
\[36\] World Bank, Yemen - Country Assistance Strategy.
\[37\] World Bank, Yemen - Country Assistance Strategy.
Challenges to the Business Environment

In its 2000 report, the World Bank identified a litany of major challenges facing private sector development in Yemen, in areas ranging from infrastructure and government policy, to human resources and access to financing, to thin demand in the local market. Among the underlying factors inhibiting non-oil private sector development was the sector’s immaturity. The vast majority of business were very small and operated in an environment that either lacked access to, or directly inhibited the obtainment of, the components necessary to grow and develop economies of scale.

Bureaucratic Obstructions

For instance, the few laws that both existed and were enforced regarding the private sector tended to inhibit development. As an example, the World Bank noted that Yemen had relatively high nominal import tariffs, as well as an unwieldy and badly organized customs regime, which created a “restrictive environment” and raised the time and costs of securing capital inputs. At the same time, state regulation was weak or non-existent in many other areas, with no government policy to curb anti-competitive behavior, little official enforcement of property rights or contractual obligations, and a judiciary with a “strong anti-commercial bias.”

Weak Infrastructure

Available infrastructure also clearly showed Yemen to be amongst the least developed countries in the world: only 40 percent of the population had access to clean drinking water, with the water supply per capita only 2 percent of the global average; just 35 percent of Yemenis had access to electricity, and even those connected to the national grid suffered regular prolonged blackouts; telecommunications penetration was “very low”; paved roads were less than 10 percent of the total road network, much of the remaining roads were in poor condition and/or inaccessible in rural areas, which left large segments of the population isolated from services and the wider economy. Access to education

[42] World Bank, Yemen: Comprehensive Development Review
and medical services was also poor, with Yemen having a 56 percent adult literacy rate and only 55 percent of the population able to readily access medical services.\[46\]

**Poor Investment Climate**

Given the lack of domestic wealth in Yemen, the World Bank identified foreign direct investment (FDI) as being crucial for the country’s development. The Bank noted, however, that:

> “Potential large-scale investors face a considerable amount of unnecessary regulations and licensing, a legal environment which is often unclear or not consistent with international norms, and an often unresponsive or corrupt civil service. They are also discouraged by the lack of dependable jurisprudence, enforceable contracts, secure land titles, predictable taxation or tariff protection, and in some cases physical infrastructure and physical security.”\[47\]

Consequently, apart from the energy resource sector and the Port of Aden, private investment in Yemen was “mostly small.”\[48\] Between 1995 and 2005, there were seven years in which there was, on balance, zero FDI in the non-oil private sector, and for each of the remaining years there was an overall exit of investment from the sector, averaging US$67 million in outflow for those years.\[49\] There were also no formal stock or bond markets. Access to credit for businesses was limited, with almost none available for small and micro enterprises, and banking competition was minimal, with bank ownership concentrated with the government. Notably, less than 7 percent of the population held a bank account.\[50\]

Meanwhile, potential investors surveyed at the time did identify prospective opportunities that existed. These included the Aden Port and Free Zone, infrastructure development, privatization of state-run entities, tourism, fisheries and mining for minerals such as marble and granite.\[51\]

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\[46\]World Bank, *Yemen - Country Assistance Strategy*.

\[47\]World Bank, *Yemen: Comprehensive Development Review*.

\[48\]World Bank, *Yemen: Comprehensive Development Review*.

\[49\]Based on historical balance of payments data provided by the Central Statistics Organization in June 2018.

\[50\]Interview with member of senior management at the Central Bank of Yemen, June 23, 2018.

\[51\]FIAS Yemen: Investor’s Perceptions and Diagnosis of the Environment for Foreign Investment (1997)
“Dutch Disease” and Barriers to Export-led Growth

Yemen’s oil production, while small compared to its Gulf neighbours,[52] was significant enough in the local context to be the country’s largest source of foreign currency and to afflict the non-oil private sector with a version of the “Dutch Disease.”[53] The foreign currency coming into Yemen from oil sales – magnified by the fact that remittances were the second largest source of foreign currency – helped stabilize the domestic currency at a higher exchange rate than would be warranted otherwise. This elevated the cost of other possible exports, diminishing their competitiveness internationally and inhibiting the private sector’s development of export-led growth. The higher value of the Yemeni rial also made imports relatively cheaper, again undercutting the development of domestic industry. Additionally, there was essentially no export financing services available in Yemen.[54] Thus, between 1995 and 2005, non-oil exports accounted for an average of just 12.5 percent of total exports.[55]

These factors – relatively cheap imports and little domestic industry – combined to leave Yemenis heavily dependent on imports to meet almost all their commercial and industrial needs. Yemen has for decades imported on average 90 percent its food requirements.[56] Even in years when there was substantial decreases in GDP due to oil market volatility there was only an incremental drop in imports, despite the lower value of the YR in these years.[57] This inelasticity in import demand demonstrates the extent to which Yemen is import dependant to meet the population’s basic needs.[58]

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[53] According to Investopedia: “Dutch disease is an economic term that refers to the negative consequences arising from large increases in the value of a country’s currency. It is primarily associated with a natural resource discovery but can result from any large influx of foreign currency into a country, including foreign direct investment, foreign aid or a substantial increase in natural resource prices.” See “Dutch Disease, Investopedia, accessed July 2, 2018, https://www.investopedia.com/terms/d/dutchdisease.asp.


[55] Based on historical data of the structure of GDP by economic activity, provided by the Central Statistics Organization in June 2018.


Weak Reforms and Rent-Seeking by Elites

In 1995, the central government in Sana’a drafted and enacted the Economic Reform Program (ERP) with the support of the World Bank and the International Monetary Fund (IMF). Central to the ERP was the notion of promoting the private sector’s role in the Yemeni economy. The ERP objectives included: restructuring the economy by promoting the role of the private sector in socio-economic development; efficient management of the economy; and restoring economic stability through financial/monetary policies and procedures. Also in 1995 the government initiated the first five-year Socio-Economic Development Plan for Poverty Reduction (DPPR), which prioritized the development of all areas of the private sector and development at the governorate level.

While ambitious on paper, the ERP and DPPR generally fell short of their goals. The government at the time had neither a sense of urgency regarding reform implementation, nor gave adequate attention to the foundational challenges facing the business environment in Yemen. The authorities’ engagement with the private sector was uncoordinated across the government bureaucracy with no accountability mechanism for public officials regarding results. There was little data available regarding the private sector to guide the reform programs, and the efforts were not seen as credible.

Although difficult to quantify, a major obstacle facing reforms in Yemen was, and remains, the country’s political economy. As the World Bank noted:

“The country has long been hostage to a short-term rent-extraction frenzy by multiple elites who have undermined any possibility of sustainable development, have been able to distort economic policy and block reforms, and have continued to seek rents aggressively that might otherwise have been recycled into development. This has occurred in the most profitable or most strategic economic subsectors such as oil and gas, agriculture, water, telecommunications, and financial services.”


Essentially, former President Ali Abdullah Saleh purchased the authority to govern from the country’s political and tribal elites through patronage, access to state resources, and the distribution of spheres of authority – such as within government ministries or access to markets – within which the beneficiaries could foster their own fiefdoms of control and means of wealth accumulation. These groups and individuals had a vested interest in preventing newcomers from challenging them, and access to political machinations necessary to prevent these challenges. For example, rules governing access to credit were used to prevent new businesses from entering the market and to benefit the existing dominant companies. Likewise, companies unaffiliated with the political elite would find themselves unable to secure government contracts.

At the same time, between 1995 and 2000 some progress was achieved on easing import barriers and simplifying tariffs. The ERP was also seen to have begun the process of reducing and/or eliminating government subsidies on some commodities which, taken together, created more space in the market for the private sector and allowed it to take the lead imports.

Other private sector challenges included the a high level of smuggling and the widespread use of qat, a plant that when ingested acts as a mild amphetamine. Qat was estimated to sap up to a quarter of national income, undermine national productivity, displace other agricultural crops, and further siphon off the country’s already scarce water resources.

In its 2000 report the World Bank thus summed up the situation of the non-oil private sector: “In a nutshell, the sector is struggling.”

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[64] Hill et al., *Yemen*.


**Economic and Private Sector Developments, 2000-2011**

**Government Economic and Financial Reform Efforts**

Following the end of the Yemeni government’s first DPPR in 2000, it launched two more development plans through the 2000s. The second DPPR from 2001 to 2005 saw the introduction of new legislative and institutional procedures designed to stimulate investment, privatization and private sector reform. The DPPR also aimed to secure Yemen’s accession to the World Trade Organization (WTO).[^68] During this same time, the government introduced the Poverty Reduction Strategy, which ran from 2003 until 2005 and aimed to reduce poverty rates, generate jobs, and promote economic stability.

The third DPPR, from 2006 till 2010, sought to enhance and leverage the central government’s relationship with the private sector in order to stimulate growth. The plan aimed to help create an environment conducive to investment and to establish the Public-Private Supreme Council to review and discuss economic policies. It also sought to activate private sector support bodies such as the Yemen Export Supreme Council, as well as joint committees designed to support the transformation of private enterprises into joint-stock companies that embraced corporate governance principles.[^69]

In 2006 the government introduced the “National Agenda for Reform” and the “Good Governance Measures”. The documents officially stated that the future of economic development in the country depends on “Yemen’s ability to stimulate domestic private investment as well as foreign direct investment by improving its overall business environment.” In 2007 the government introduced the Institutional Reform Development Policy Grant with two central elements designed to stimulate the non-hydrocarbon private sector: (1) tax reforms to rationalize private investment incentives, and (2) reforming property registration and ownership rights.[^70] In 2008 the government began reforms to expand access to financial services and credit facilities, and the following year introduced the Microfinance Banking Law – allowing both specialized and traditional banks to enter the microfinance market – established the Deposit Insurance Company and legally mandate insurance coverage for small depositors.


Similar to the first DPPR, these further reforms generally fell short of their targets. Yemen’s oil production peaked in volume in 2001, entering a steady decline that averaged 3 percent to 4 percent annually over the next 10 years. However, the ascent of world oil prices until the 2008 global financial crisis saw Yemen’s revenues from oil exports increase over this time, with oil averaging some 85 percent of exports and the remaining 15 percent being non-oil private sector exports.\(^{[71]}\) Given the oil receipts, which averaged 65 percent of government revenues until 2008, and the wars in Sa’ada with the Houthi movement that began in 2004, the government seemed to put little urgency into implementing its development goals to expand the private sector and diversify away from oil dependence.\(^{[72]}\)

In assessing Yemen between 2000-2010, the World Bank stated: “The quality of governance has remained weak over this period and important structural reform initiatives like the privatization process, civil service reform and judicial reforms stalled. An increasing concentration of economic and political power alienated citizens, lowered the state’s legitimacy, and weakened the traditional systems of social cohesion, governance and accountability, while “modern” rules to guarantee good governance and accountability are not yet fully operational.”

There were some areas, however, where the reform programs bore fruit. By 2010, reforms to the business registration process had brought down the time, difficulty and cost of starting a business. In 2007, for example, Yemen had the 2nd largest minimum capital requirement for business start-ups in the world – at more than 2,000 percent of per-capita income – but by 2010 the capital requirement had been reduced to zero. Simultaneously, the time for licencing and registration procedures had been reduced by 50 days. Corporate taxes had been reduced significantly and harmonized, while the tax administration regime had been simplified; there was a marked decrease in property related disputes, and the time for import processing at customs had also been reduced by half.\(^{[73]}\)

In 2009, the market for Islamic banking services was opened, allowing domestic banks to operate Islamic banking services and allowing foreign

\(^{[71]}\)World Bank, *Program Document.*

\(^{[72]}\)World Bank, *Program Document.*

\(^{[73]}\)World Bank, *Program Document.*
Islamic banks into the local market.[74] The same year the government established a credit registry, lowering credit risk for banks and the cost of credit for customers. Within a year, the registry held information on almost 80,000 loans, or about 95 percent of applicable credit agreements in Yemen. Meanwhile, within a year of the introduction of the Microfinance Banking Law in April 2009 the microfinance market was serving some 51,000 clients.[75]

Noteably, non-hydrocarbon private sector growth averaged 5 percent annually from 2000–2010 the decade, expansion primarily driven by the transportation, retailing and manufacturing sectors.[76]

The Bane of Oil Dependence

Off the back of the expanded oil receipts, public expenditures ballooned, reaching as high as 41 percent of GDP in 2008. Among the drivers of public expenditure was a generalized fuel subsidy, which took up between a fifth and a quarter of all government spending from 2005–2010.[77] While Yemen did not suffer much in the way of direct impacts from the 2008 Global Financial Crisis, given its lack of mature financial markets, the country was heavily impacted by the ensuing drop in oil prices. The price drop, combined with cumulative declines in oil production, saw government revenues from oil receipts dropping by half between 2008 and 2009.[78] Yemen’s 2008 balanced budget thus dropped into a deficit equivalent to 8 percent of GDP in 2009, and 5.6 percent of GDP for 2010.

With Yemen facing continued budget shortfalls due to declining oil revenues, in the summer of 2010 the IMF finalized a three-year Extended Credit Facility (ECF) with the Yemeni government worth some $370 million. As part of the ECF, the Yemeni government agreed to implement reforms aimed at boosting non-hydrocarbon economic growth, as well as non-hydrocarbon revenues through tax reforms; shifting government spending towards infrastructure and social welfare; ensuring sufficient foreign exchange reserves, and creating a more business friending environment in Yemen.[79]

[74]In 2010 there were, and currently still are, 16 banks operating in Yemen (though since 2010 the French-owned Credit Agricole closed and Nation Bank of Qatar opened in the country). Four of the banks are Islamic banks. In regards to ownership, three of the banks are majority state-owned and two are minority state-owned, while the remaining banks have differing levels of domestic and foreign ownership. There are also two microfinance banks in operation.


Of particular concern to private sector development by the year 2010 was the government’s inability to balance the budget. As the World Bank noted in 2010: “At present, the fiscal deficit has driven up interest rates to 23 percent, an obstacle to investment. Reducing the fiscal deficit and therefore reducing the pressure on the domestic financial market is a prerequisite for improving the conditions for private sector development.”

The 2011 Uprising and Ensuing Political Crisis

In 2011, Yemen entered a period of political crisis and profound instability when a popular uprising occurred against the regime of Ali Abdullah Saleh, Yemen’s president for more than 30 years. The impact on the economy was dramatic. Between 2010 and 2011 Yemen’s GDP growth dropped from 7.7 percent to -12.7 percent.

A World Bank survey of Yemeni businesses published in September 2012 found that more than three quarters reported that the severity of electricity shortages, political instability, corruption and general economic uncertainty had increased. The same survey found that more than 40 percent of businesses had shed 40 percent of their staff or more and lost more than half their sales. According to the survey’s authors: “These effects were found to be more pronounced for small businesses over the medium and large businesses, likely reflecting the more limited coping mechanisms and shallow financial resources available to small businesses.”[80]

Saudi Arabia intervened in 2012 with a $3 billion injection of cash and fuel in Yemen’s economy, allowing the country’s GDP to rebound in 2013 to 4.8 percent growth. The government, however, continued to run a deficit in the range of 8 percent of GDP, due largely to the continued fuel subsidies and public sector wages, which accounted for more than half of government spending. In July 2014, transitional President Abdo Rabbu Mansour Hadi, heeding advice from the IMF, repealed the fuel subsidy. Fuel prices essentially doubled overnight and planned support for the lower socioeconomic strata of the population failed to materialize. The popular discontent this sparked was then seized upon by the Houthis and allied forces of former President Saleh – which had already made military advances near the capital –

to enter Sana’a on a populist wave and quickly begin to seize control of government institutions and ministries. The capital exodus and economic uncertainty this spurred then caused Yemen’s GDP growth to drop to 2 percent in 2014.

*The Yemeni Labour Force in 2013-2014*

The International Labor Organization’s (ILO) Yemen Labour Force Survey 2013-2014 estimated that Yemen had a working age population of 13.4 million people, split roughly evenly between the sexes. Total labour force participation was estimated at 36.3 percent (4.86 million people), a fall from 45.9 percent recorded in the ILO’s 1999 Yemen labour force survey. There was also a significant disparity between men and women, at 65.8 percent and 6 percent labour force participation, respectively. Importantly, female labour force participation has shown a significant regression in recent decades, from 33 percent in 1980, to 29 percent in 1996, to 6 percent in the 2013-2014 ILO Survey.

Of labour force participants, some 4.2 million people actually held jobs, indicating an overall unemployment rate of 13.5 percent, an increase over the 1999 labor force survey which found unemployment at 11.5 percent. Again, there was a significant disparity between men and women, at 12.3 percent and 26.1 percent unemployment, respectively. Youth unemployment was also double the national average at 24.5 percent.

Of those with employment, almost three quarters held jobs in informal sectors, while roughly another 8 percent of those employed held informal jobs at formal sector enterprises, indicating that a total of 81 percent of working Yemenis – some 3.4 million people – were informally employed. Notably, the ILO reported a direct correlation between education and informal employment: of employed people with a primary, secondary, and tertiary education, some 84 percent, 56 percent and 23 percent, respectively, held informal jobs.

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[83] 'Youth' in this instance is defined as persons between the ages of 15 and 24.

[84] According to the ILO, businesses in the informal sector are characterized by "a low level of organization, with little or no division between labour and capital as factors of production and on a small scale. Labour relations - where they exist - are based mostly on casual employment, kinship or personal and social relations rather than contractual arrangements with formal guarantees." In regards to informal employment, the ILO states that "for a job held by an employee to be considered as informal, the employment relationship should not, in law or in practice, be subject to national labour legislation, income taxation, social protection or entitlement to certain employment benefits (advance notice of dismissal, severance pay, paid annual or sick leave, etc.)."
The ILO’s labour force survey also classified Yemen’s working population by status of employment. During the period of the survey roughly half those working in Yemen were considered employees and the other half self-employed. The employees were divided between those working in the public sector – 1.29 million people, or 30.6 percent of the working population – and those working in the private sector – 823,000 people, or 19.6 percent of the working population. The other half of Yemen’s working population were considered self-employed, either as “employers”, “own-account workers”, or “contributing family workers”, making up 6.9 percent, 31 percent and 11.4 percent, respectively, of Yemen’s working population.[85] Using the definition of ‘private sector’ as being all jobs that are not officially in the ‘public sector’, than it could be said that 69.4 percent of working Yemenis had jobs in the private sector.

**Economic Impacts of the Escalating Conflict**

By March 2015, the Houthis and allied forces were besieging the southern port city of Aden and President Hadi had fled to the Saudi capital, Riyadh. That month Saudi Arabia, the United Arab Emirates and a coalition of other Arab states then launched a military intervention in Yemen in support of Hadi and the internationally recognized Yemeni government. The coalition and associated forces quickly drove the Houthis from Aden and other southern governorates before their advances stalled, with the frontlines becoming generally static and a war of attrition settling in for most of the next three years. During this time the Houthis maintained control of most of the country’s north, its largest population centers and Yemen’s busiest import hub, which are the ports of Hudaydah and nearby Saleef on the northern Red Sea coast.

The impact of the conflict on Yemen’s economy and private sector have been calamitous. Economic output has dropped precipitously in successive years, with a 17.6 percent contraction in 2015, a 15.3 percent contraction in 2016 and a 14.4 percent contraction in 2017, entailing a cumulative 40.5 percent drop in goods and services output over three years.[86] Myriad factors have played into, and been exacerbated by, this

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[85] The ILO’s definition of "own-account workers" are self-employed people; "employers" are self-employed people who employ one or more other persons on a consistent basis; and "contributing family workers" are people who work in a "market-oriented establishment operated by a household member."

general economic collapse. Yemen’s oil exports were suspended from shortly after the coalition intervention, decimating public revenues and cutting off the country’s primary supply of foreign currency. Although since August 2016 some oil exports resumed, they have been irregular and in smaller quantities. The depletion of reserves and a domestic cash liquidity crisis in turn led to the CBY suspending most public sector salaries in August 2016 and ending import financing. Coupled with the relocation of the central bank headquarters from Sana’a to Aden in September 2016, this crisis hobbled the CBY’s ability to protect the value of the Yemeni rial (YR).[87]

The rial thus fell from YR 215 to US$1 at the beginning of the conflict to YR 490 to US$1 as of the end of June 2018. With currency depreciation, the price of imports has spiked and per-capita purchasing power has plummeted. The price of imports has also been heavily affected by a coalition sea blockade of (and now military operation to retake) Houthi-held ports – most significantly Hudaydah and Saleef – which has dramatically reduced commercial and humanitarian deliveries through these ports, and increased the time and cost of delivery for those imports that do get through. All of these factors have led to a situation today where 8.4 million Yemenis are on the edge of famine and 22 million are in need of humanitarian support,[88], in what the United Nations has called the world’s largest humanitarian catastrophe.[89]

Increased costs for businesses have been spurred by a lack of security and a scarcity of business inputs, while a loss of customer base and demand as well as general purchasing power decline has driven a loss in revenue.[90] Physical damage to public and private infrastructure has also severely affected the ability of businesses to operate.[91] As of 2017 these losses associated with the conflict had let to private sector businesses on average cutting their working hours in half, with layoffs estimated to affect 55 percent of the workforce. Meanwhile, more than a quarter of private sector firms engaged in industry, trade and services

[87]Rageh, Nasser and Al-Muslimi, Yemen Without a Functioning Central Bank.
[91]According to the UN OCHA: “From 1 October 2016 to 30 September 2017, a total of 8,878 conflict-related incidents, including airstrikes, armed clashes, and shelling, were reported throughout Yemen. Approximately 82 per cent of these incidents took place in five governorates: Taizz, Sa’ada, Al Jawf, Hajjah, and Sana’a.” See: OCHA, Yemen Humanitarian Needs.
have ceased to operate.[92] Foreign currency shortages and problems with domestic currency liquidity, as mentioned previously, have also raised costs for importers.[93]

As the United Nations Office for the Coordination of Humanitarian Affairs (OCHA) stated in December 2017:

“the agriculture sector has been severely constrained by a shortage of agricultural inputs, particularly vaccines, drugs, feeds and other essential commodities for the livestock and poultry sector. The price of poultry feed concentrates increased by 70 per cent, since the beginning of the crisis. The doubling fuel price has increased irrigation costs and water prices, forcing more farmers to abandon their farms and further exacerbating loss of livelihoods.”

Importantly, agriculture and fisheries were sectors previously employing more than 54 percent of the rural population and were the primary means of income for almost three quarters of Yemenis. Damages to these sectors has thus harmed the livelihoods of 1.7 million rural households.[94]

**Private Sector Role in Mitigating the Humanitarian Crisis**

Even with the neglect and underdevelopment the private sector endured before the conflict, and the damage to the sector during the conflict, it has been one of the primary factors stopping the dire humanitarian crisis in Yemen from being far worse. Taking the quarter of January to March 2017 as an example, 96.5 percent (or 1.3 million metric tons) of all food deliveries were brought in by commercial importers, with humanitarian deliveries accounting for the remainder.[95] In regards to fuel, almost the entirety of the 526,000 tons of fuel delivered to Yemen during that same period came via commercial importers. In highlighting the importance of the private sector to the aid effort, OCHA stated: “Just as humanitarian assistance cannot compensate

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for public institutions, it also cannot replace commercial imports and functioning local markets to meet the vast majority of Yemenis’ survival needs.”[96]

As public services, already paltry, have failed completely, the private sector has in many areas stepped in to help fill the gap. This has included facilitating a broad shift to solar power in the face of the failed national grid and a shortage of fuel for generators, as well as stepping in when water and healthcare services have collapsed.[97] A survey of business in the summer of 2017 found that four out of five considered themselves involved in the relief effort, and that their primary forms of assistance were financial, food and healthcare.[98] The private sector has also been crucial in facilitating distribution, warehousing and logistics for humanitarian actors, as well as facilitating cash transfers from donors to beneficiaries.[99]


[99] Azaki, "International Aid Organizations."
RECOMMENDATIONS

Design a Conflict-Sensitive Intervention

Yemen’s multifaceted and prolonged conflict has weakened both the formal state and formal private sector activity. In doing so it has allowed the emergence of new players in the gray or black markets in what could be described as a ‘war economy’ – where competition is largely shaped by the intersection of interests of fighting parities to fill the state vacuum. This complexity creates the need to design well-thought-out early interventions, ones that avoid reinforcing tensions or empowering businesses and informal actors that have thrived on the conflict to continue their dominance over private sector activities, which will curb the sector’s development over the longer run. In other words, early interventions should be conflict sensitive, inclusive, and pave the way for longer-term private sector development efforts.

International actors intervening on the ground should establish an inclusive mechanism in which local business actors are meaningfully engaged to create strong buy-in in enhancing peacebuilding and enabling appropriate business environments. Experiences of some countries including Rwanda, South Africa, and Sri Lanka have shown that the private sector could play a crucial role in the peacebuilding process and that economic recovery programs achieve good outcomes when local players are empowered to shape the institutional needs for implementing these programs.

Build Local Business Capacities to Implement Programs and Create Jobs

In the event of a successful cessation of hostilities, international stakeholders should aim to step up their efforts on the ground to respond to the humanitarian crisis and participate in the developmental reconstruction process. In doing so, they should work to ensure that local businesses have the necessary tools and requisite skills to take advantage of international interventions and meet their set standards for involvement, while intervening to deliver humanitarian aid and support longer-term infrastructure projects. This should include facilitating the transfer of knowledge, specifically knowledge related the use of technology in business, through providing education and training programs for Yemen’s private sector labor force.

There are certain promising sectors and enterprises in Yemen that should be a key priority of international actors to support in the aftermath of
the conflict. Allocating funds to reconstruct Yemen’s infrastructure – such as the construction and maintenance of roads, electricity power plants, water and sanitation networks and similar infrastructure projects – would serve as a fast channel for funds, create many jobs, enhance sustainable local development, and help prevent unemployment or poverty from spurring the return of combatants to the battlefield. International stakeholders should also assist the Yemeni government in building its capacity to properly manage public investment projects and efficiently deploy funds earmarked for reconstruction.

The agriculture sector, which employed the largest portion of the Yemeni workforce prior to the conflict, has been particularly adversely impacted by the dynamics of the war in Yemen and should be the target of any early intervention to boost the economy. For instance, programs could be established to support microbusinesses in agriculture and offer training and technical assistance for farmers and those hoping to establish small-scale and self-sustaining projects.

Moreover, private actors could assist the government and international donors in developing joint financial mechanisms to finance SMEs and business incubators. These should also specifically target and assist women and youth to start businesses, given how underrepresented these groups are in private sector activities.

**Ensure Private Sector Access to Finance**

A functioning banking system is crucial for strengthening the role of the private sector in Yemen, which is largely a cash-based economy. Since the outbreak of the war in Yemen, many businesses have either laid off employees or were forced to suspend their operations. The liquidity crisis has driven cash assets from the formal banking sector to the black market, leaving banks handicapped and unable to function properly. Over the short run, the Yemeni government and all relevant stakeholders should support a full return of a functioning financial sector – including stabilizing the CBY and empowering it to perform its monetary mandates. Over the longer run, efforts should be directed to lead reforms on banking regulations and ensure an appropriate platform for foreign investors to establish banks in country, as well as for remittance inflows. In this regard, the Yemeni government should establish for a mechanism for investment guarantees in order to attract the remittances of the Yemeni diaspora to contribute to country economic recovery.

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This has a high potential to attract the accumulated capital of Yemeni expatriates, many of whom are at risk of being forced to return to Yemen by ongoing Gulf Cooperation Council nationalization policies to localize Gulf labor markets. Returning Yemenis could be encouraged to set up new enterprises, or place their savings in Yemeni government foreign currency bonds, which would both provide the public sector with badly needed funds while also allowing the individuals to protect their investments from depreciation.

In addition, Yemen’s experienced microfinance institutions should be a key target of all stakeholders for driving more financial inclusion across Yemen. Microfinance banks and companies should be also empowered to offer financial services for individuals and cash management services for smaller businesses. Moreover, mobile banking in Yemen should be enhanced to expand access to low-income borrowers.

Reform the Business Environment

This entails physical security, but it also implies a just and effective rule of law – in particular regarding property rights, contract enforcement and arbitration, and general market regulation. There must be sufficient political and legal stability to create a conducive environment for investment flows. While the conflict continues, many businesses have experienced double tariffs on imports or the double taxation of businesses operating in regions held by different belligerents, hampering the work of the private sector.

Once the environment for investments is secure, the government should establish a business-friendly taxation system. This means a taxation level that accounts for the need to attract investment while also recognizing the state’s need to raise revenues for public investment, while also reinvesting in and empowering the public revenue agency to ensure that the taxes due are actually collected, with this latter point also requiring the establishment of effective anti-corruption institutions. The government should also encourage investments through easing some regulations that restrict foreign investments and discourage business startups. In particular, the government should engage with and invest in transformative sectors such as transportation, financial services, telecommunications, tourism, power production, and food processing and distribution.[101]

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About the Author

Amal Nasser is a non-resident economist with the Sana’a Center for Strategic Studies focusing on the political economy of Yemen and the wider Middle East and North Africa.

Nasser holds a master’s of science in industrial and network economics from the Berlin Institute of Technology, where she also received her B.Sc in Economics, and her writing and analysis is frequently featured in media outlets such as Al-Monitor, The New Arab and Almodon.

She is co-founder of ArabHub Berlin, an initiative dedicated to creating cultural, political and intellectual space for Berliners to explore Arab affairs.

About the Editor:

Spencer Osberg is chief editor at the Sana’a Center for Strategic Studies. He has worked with various institutes and NGOs to produce socio-economic, political, humanitarian and security related studies on the Middle East and North Africa.

Osberg was previously the managing editor of Executive magazine in Beirut. As a journalist he reported for media outlets including Al Jazeera English, CBC Radio, France 24, The Globe and Mail, Nikkei Newspapers.

Spencer holds a master of fine arts in creative nonfiction and a bachelor of journalism from the University of King’s College. He also holds a bachelor of arts in philosophy from Dalhousie University.
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, we 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, we will implement consultation workshops with local stakeholders, including the private sector, youth and civil society organizations; moreover, we will conduct campaigns through both traditional and social media outlets to engage the wider Yemeni public; (4) and through regional and international engagement we 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 (SCSS) is an independent policy and research think-tank that provides new approaches to understanding Yemen and the surrounding region, through balanced perspectives, in-depth studies and expert analysis. Founded in 2014, the SCSS conducts research and consultations in the fields of political, economic, civil and social development, in addition to providing technical and analytical advice regarding key issues of local, regional and international concern.

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.

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 longstanding experience in the implementation of projects in cooperation with partners from the region and a deep understanding of the Yemeni context.

Contact: Sana’a Center for Strategic Studies, Haddah Street, Sana’a, Yemen       Email: oalrawhani@sanaacenter.org