



RETHINKING
YEMEN'S ECONOMY

*Beyond the Business as Usual
Approach:*

COMBATING CORRUPTION IN YEMEN



By:
**The Sana'a Center for
Strategic Studies**

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ACRONYMS

AGO	Attorney General's Office
ARC	Aden Refinery Company
CAC Bank	Cooperative and Agricultural Credit Bank
CBY	Central Bank of Yemen
COCA	Central Organization for Control and Auditing
FIU	Financial Information Unit
EITI	Extractive Industries Transparency Initiative
GDP	Gross domestic product
GPC	General People's Congress
LNG	Liquid natural gas
NGO	Non-governmental organization
NRA	National Reform Agenda
SMEs	Small and medium-sized enterprises
SNACC	Supreme National Authority for Combating Corruption
STC	Southern Transitional Council
UAE	United Arab Emirates
UN	United Nations
UNVIM	United Nations Verification and Inspection Mechanism for Yemen
YAR	Yemen Arab Republic
YECO	Yemen Economic Corporation
YPC	Yemen Petroleum Company

EXECUTIVE SUMMARY

Corruption, or the abuse of power for private gain, is deeply entrenched in the Yemeni political economy. For decades Yemen has witnessed state capture, with political leaders at the highest level extracting rents from state institutions to benefit a select few. Administrative corruption, too, has been commonplace in Yemen: low-level bribery and favoritism have become a part of everyday life. There is arguably a cultural acceptance — even an expectation — of corruption in politics and business, as informal networks have come to wield more influence than official institutions.

State capture and administrative corruption in Yemen have their origins in the presidency of President Ali Abdullah Saleh. Under Saleh, a band of elites built a system of patronage over the course of the 1980s and 1990s, both before and after the 1990 unification of North and South Yemen.^[1] The main beneficiaries of this “neopatrimonial” patronage system were the members of Saleh’s family, tribe, and close associates, who were installed into the upper echelons of Yemen’s military structures and security apparatus. The rules of the game were simple: state-sponsored handouts in exchange for loyalty to the regime. After oil was discovered in Yemen in the mid-1980s, oil and gas rents bankrolled the expansion and maintenance of Saleh’s patronage network.

Following pressure from the international community to address endemic corruption in Yemen, a wave of anti-corruption reforms were introduced in the mid-2000s. Despite praise at the time for what appeared to be progress towards addressing corruption, in the long term the reforms seem to have proven ineffective. In the meantime, Yemeni oil production declined after 2001, and Saleh’s patronage system became increasingly untenable.

Widespread protests broke out across Yemen in early 2011 and an elite power struggle ensued in Sana’a. Protestors were united by a shared animosity against the corrupt system they closely associated with Saleh and his cohorts. Saleh stepped down in February 2012. Saleh’s successor, President Abdo Rabbu Mansour Hadi, and the transitional government that he presided over talked tough on corruption. However, extensive corruption continued under the new government: patronage payments accelerated, fuel subsidies increased for the private sector,

[1] Colloquially known as North Yemen and South Yemen respectively, the Yemen Arab Republic and the People’s Democratic Republic of Yemen were unified in 1990 to form the Republic of Yemen.

and money intended for humanitarian and development aid donated by the international community was diverted. In this context the Houthis rallied popular support by tapping into anti-corruption sentiments. After the Houthis entered Sana'a in September 2014 with the presumed support of former president Saleh, they signalled their determination to fight corruption and present themselves as a worthy alternative to the status quo. Operating under the cover of an anti-corruption banner the Houthis attempted to push Hadi from power in early 2015. This move led the Saudi-led coalition to enter the conflict in support of the Hadi government in March 2015, intensifying the conflict.

Over the course of the conflict, Yemen has witnessed corruption that continues to operate according to the same rules as before the war and at an equally troubling rate. As the conflict has fragmented and regionalized the country, however, 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 dimension of the Saudi-led coalition's military campaign has extended patronage networks across national borders — though historically Yemen is accustomed to a degree of patronage from its Saudi neighbor. 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.

Anyone concerned about building a stable post-conflict Yemen must take seriously the challenge presented by corruption in Yemen's war economy. With this in view, the following guiding principles and recommendations are offered:

Guiding principles for policymakers aiming to address corruption in Yemen:

- **Guiding Principle No. 1:** Acknowledge complexity. Any attempt to address corruption in Yemen should acknowledge and aim to understand the complex, context-specific mechanisms of corruption at the heart of Yemen's war economy, the actors involved, and any overlapping political and economic interests. A well-developed contextual understanding will allow policymakers to weigh potential benefits and anticipate pitfalls when developing an anti-corruption strategy.
- **Guiding Principle No. 2:** Implement gradually. Given the high levels of state capture and administrative corruption in Yemen, it would be unrealistic and perhaps counterproductive for policymakers to introduce a sudden and aggressive anti-corruption strategy. State capture should be

rolled back gradually, with a phased implementation of anti-corruption reforms limiting the shock to the system. Any attempt to combat corruption in a rushed or superficial manner 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.

- **Guiding Principle No. 3:** 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. 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.

Policy recommendations for a post-conflict Yemen:

- Build on the existing anti-corruption framework in Yemen by funding Yemen's existing state-run anti-corruption agencies and encouraging greater coordination and data-sharing among them.
- Encourage transparency and accountability by requiring higher standards of public disclosure, particularly on government tenders and the salaries of appointed officials and senior government staff.
- Reduce conflicts of interest by legally obligating government employees to relinquish control of any private businesses, establishing rotating positions in state-run energy companies, implementing regulations concerning equal employment opportunities within the public sector, and reforming the military and security apparatus.
- Improve the management of government finances by constructing a rigorous system to control the disbursement of government funds, making the Central Bank of Yemen fully independent, requiring adherence to anti-corruption legislation for the continued delivery of external donor assistance, and closely monitoring financial assistance provided for post-war reconstruction and local development projects.
- Decentralize economic power by empowering local authorities to deliver public services and implement local development projects, aid the creation and expansion of small and medium-sized enterprises (SMEs), and empower anti-corruption agencies to monitor fuel import companies.

INTRODUCTION

In its most recent Corruption Perceptions Index, global anti-corruption watchdog Transparency International ranked Yemen 175 out of 180 countries. It gave the country 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, or the abuse of entrusted power for private gain,^[4] is not a new development in Yemen. The country has witnessed decades of state capture, in which a political elite has distorted the basic legal framework in order to extract state rents.^[5] 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. The country's informal elite networks have become more influential than formal state institutions, another hallmark of state capture. State capture and lower-level administrative corruption, characterized by everyday bribery and favoritism,^[6] 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."^[7] 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 changed the basic workings of state capture: an elite minority of actors continues to abuse their

[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] "What is Corruption?" *Transparency International*, accessed June 25, 2018, <https://www.transparency.org/what-is-corruption>.

[5] For an in-depth the definition of state capture see World Bank, *Anticorruption in Transition: A Contribution to the Policy Debate* (Washington, DC: World Bank, 2000), 1, accessed June 25, 2018, <https://siteresources.worldbank.org/INTWBIGOVANTCOR/Resources/contribution.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.

power for private gain. They operate according to “rules of the game” that remain fundamentally unchanged from before the conflict.

However, while the primary mechanisms and sources of illicit profit have remained largely constant throughout the conflict, the players involved have shifted. Yemen’s burgeoning war economy has seen the emergence of previously marginalized or unknown actors. While competition for control of Yemen’s major economic resources rages, the networks of corruption now transcend the conflict. They seamlessly cross frontlines and borders, with perceived adversaries willingly cooperating for the sake of maximizing private gain. These new patronage networks — and the war economy that supports them — may undermine peace prospects and any possible attempt to combat corruption.

This paper presents a detailed analysis of the nature, extent, and evolution of corruption in Yemen from the presidency of Ali Abdullah Saleh to the present day. It first traces the evolution of state capture and administrative corruption over the course of Saleh’s tenure and maps out the patronage system that emerged under his administration. It outlines the official reform efforts launched in the mid-2000s and their subsequent failure to produce meaningful change. It examines the evolution of corruption after Saleh stepped down as president in 2012. The paper then provides a detailed overview of Yemen’s current “war economy” and the corruption enabled by the ongoing conflict. The paper concludes by laying out guiding principles for policymakers evaluating this issue. It provides specific recommendations for scaling back the level of state capture and administrative corruption in Yemen.

Control over the instruments of state capture is a driving force behind the violence and instability currently engulfing the country. Corruption cannot go unaddressed if Yemen is to recover from this period of conflict. Although some measures may necessarily have to wait until the post-conflict period, the issue extremely urgent.

STATE CAPTURE UNDER SALEH

This section provides an overview of the late Ali Abdullah Saleh's influence on Yemen's political economy in the 1980s-2000s. The corruption and capital flight that accompanied his influence concerned the international community, deterred foreign investors, and hindered socioeconomic development. However, although Saleh is viewed as one of the chief conductors behind a corrupt system, he was not the only culprit. The patronage networks over which Saleh presided were widespread, inclusive, and benefited a number of people besides himself.

Origins of Saleh's Patronage System

The economy of northern Yemen has long been dominated by a tribal elite. For centuries prior to the 1962 republican revolution, a Zaydi religious autocracy ruled over North Yemen.^[9] Its main source of revenue was agriculture. The tribesmen located in the northern highlands, or "upper Yemen," coped with the barren, mountainous terrain by herding, trading livestock and raiding the agriculturally richer areas found in "lower Yemen" where Shafa'i (Sunni) non-tribal communities were based.^[10]

In 1962 the Yemen Arab Republic (YAR), colloquially known as North Yemen, was established. An eight-year civil war followed between royalists and the republicans who eventually emerged victorious. The major turning point for northern tribesmen, however, was Ali Abdullah Saleh's rise to YAR president in 1978. When Saleh came to power he sought to ensure his own survival;^[11] he integrated the northern tribal elite, particularly members of Saleh's own Sanhan tribe, into North Yemen's armed forces. He installed his own relatives in military and security leadership positions while integrating tribesmen within the officer corps ranks.^[12] As a result, the northern tribal elite quickly came to dominate the upper echelons of the armed forces and to hold a greater stake in the political economy more generally.

[9] Zaydism is a moderate brand of Shia Islam that is unique to Yemen and closer to Sunni Islam than the Twelver Shia doctrine popular in Iran.

[10] Robinson et al., *Yemen Corruption Assessment*, 2.

[11] Asher Orkaby, "Ali Abdullah Saleh's Fatal Calculation," *Foreign Affairs*, last modified December 6, 2017, accessed June 25, 2018, <https://www.foreignaffairs.com/articles/yemen/2017-12-06/ali-abdullah-salehs-fatal-calculation>.

[12] April Alley, "Shifting Light in the Qamariyya: The Reinvention of Patronage Networks in Contemporary Yemen" (PhD diss., Georgetown University, 2008), 52.

The tribalization of North Yemen's armed and security forces enabled Saleh to develop his own patronage networks. These patronage networks expanded further following the discovery of oil in Marib governorate in 1984, which marked the beginning of an economic shift. The North Yemen economy began to rely less on agriculture, remittances, and other forms of external aid; it came to depend instead on energy exports.^[13] Saleh seized the opportunity provided by the emerging energy sector to assume centralized control of energy revenues, which he used to finance the maintenance and expansion of his personal patronage networks.^[14]

The unification of North and South Yemen in 1990 saw Saleh become president of the newly formed Republic of Yemen. Following unification, resentment grew in former South Yemen toward a perceived economic and political marginalization at the hands of the northern elite. This resentment fueled a failed attempt in May 1994 to regain southern independence, which then led to the 1994 civil war. The north's decisive military victory only served to consolidate further the northern elite's dominance within Saleh's system of rule.

Following the 1994 civil war, new forms of corruption emerged.^[15] Northern tribal and military elites acquired new patronage resources as they took over southern assets including land, commerce, and energy resources.^[16] A band of southern officials from Abyan and Shabwa that had sided with northern forces during the 1994 civil war also reaped the benefits of land redistribution. Coinciding with increased oil production and high global oil prices, the post-war period saw Saleh rise to the peak of his influence.

[13] Hill et al., *Yemen*, 19.

[14] Alley, "Shifting Light," 55.

[15] Hill et al., *Yemen*, 19.

[16] Robinson et al., *Yemen Corruption Assessment*, 3. "The North's dominance over the South was achieved not only by active suppression but also by wealth disparity. This was evident pre-unification owing to the restrictive economic conditions within the PDRY. Although the 1991 constitution gave all Yemeni citizens the right to own property, Southerners were, by default, placed at an immediate disadvantage. Many Northerners proceeded to buy property in the South while their Southern counterparts looked on, unable to afford anything. From a Southern perspective, the constitution effectively paved the way for Northern land grabs and, subsequently, legitimised Northern occupation. After the 1994 civil war, Saleh returned some disputed land while distributing state-owned property to powerful Northern tribesmen and politicians as well as Southern allies, mostly from Abyan and Shabwa, who had fought on the North's side;" see Anthony Biswell, "On the Casual Calls for Secession: Part II Yemen," The Delma Institute, last modified October 6, 2016, accessed June 25, 2018, <http://drafts.delma.io/en/on-the-casual-calls-for-secession-part-ii-yemen>.

Main Beneficiaries of State Capture and Administrative Corruption

Aside from Saleh himself, the primary beneficiaries in Saleh's patronage system were his immediate family, the military officer corps, and the northern tribes, particularly members of Saleh's tribe – the Sanhan. All are directly linked. Saleh placed members of his family, such as his son and his nephews, in command of various elite branches of the military and security apparatus dominated by prominent northern tribes. Saleh also promoted members of the northern tribal elite within the military to the officer corps.^[17]

Saleh's favoritism maintained a delicately balanced hierarchy among northern tribes. When allocating state resources or civil service employment,^[18] Saleh conferred greater benefits to tribes from the Hashid tribal confederation (the most powerful tribal confederation in Yemen's modern history) than to either the Bakil or the Madhaj tribal confederations. During Saleh's presidency the Hashid tribal confederation — and Saleh's Sanhan tribe within it — came to dominate the armed and security forces. Saleh also entered into a tacit power-sharing arrangement with the late Sheikh Abdullah al-Ahmar, the former undisputed sheikh of sheikhs of the Hashid tribal confederation.^[19]

For decades senior military and security commanders capitalized on a state-sponsored scheme in which they were given money and equipment based on the number of soldiers under their command. Aided by the lack of transparency in the military budget — it was a single line item on the national budget — military and security commanders gained financially by vastly inflating the numbers of soldiers under their command.^[20] Listing so-called “ghost soldiers” — individuals who either do not report for duty or are completely fictitious — allowed commanders to collect extra salaries or equipment to sell later on the black market.^[21]

[17] Hill et al., *Yemen*, 18-21; Zoltan Barany, *The Challenges of Building a National Army in Yemen* (Washington, DC: Center for Strategic and International Studies, 2016), 12-14 and 19-23, accessed June 25, 2018, https://csis-prod.s3.amazonaws.com/s3fs-public/publication/160718_Challenges_Yemen_National_Army.pdf.

[18] Robinson et al., *Yemen Corruption Assessment*, 3.

[19] Hill et al., *Yemen*, 18-21.

[20] Robinson et al., *Yemen Corruption Assessment*, 4; Barany, *Challenges*, 18-23.

[21] Robinson et al., *Yemen Corruption Assessment*, 4.

Another form of systemic corruption in which military and security commanders engaged was channeled through the military-owned Yemen Economic Corporation (YECO).^[22] Initially YECO granted military and security officials access to subsidized commodities. Later it took control of multiple industries, including those dealing with land ownership and, allegedly, the arms trade. As YECO shifted its focus, military and security officials benefitted from opaque land ownership and registrations systems.^[23]

Over time, this preferential treatment led to the creation of a new “parasitic” business elite.^[24] Favored tribal sheikhs made huge profits from the opaque awarding of state contracts. This included the issuing of tightly regulated import, export, and telecommunications licences, which the “parasitic” business elite occasionally sold for profit to other, well-established merchants.^[25] The emergence of the new tribal business elite left Yemen’s long-established business families and merchants, many of whom were non-tribal and located in the central governorates of Ibb and Taiz, in a difficult position. They either had to accept the new parameters set by the Saleh regime or leave.^[26] Rejecting the political economy that underpinned Saleh’s rule — such as by refusing bribes or drawing attention to corruption — was likely to undermine their ability to do business in Yemen. Even accepting the new rules of the game was no guarantee of long-term financial stability, as members of the traditional business elite and technocrats were considered relatively disposable by those in power.

Maintaining the Patronage System

The “neopatrimonial” system of governance built by Saleh was broad and inclusive. Although the system relied on the buy-in of others, the Saleh regime ultimately decided which actors were to be granted which benefits, for how long, and on what conditions. Participants in the patronage network were expected not to cross certain “red lines”

[22] Paul Dresch, *A History of Modern Yemen* (Cambridge: Cambridge University Press, 2000), 208; Adam C. Seitz, “The Tribal-Military-Commercial Complex and Challenges to Security Sector Reform in Yemen,” in *Addressing Security Sector Reform in Yemen: Challenges and Opportunities for Intervention During and Post-Conflict*, ed. Marie-Christine Heinze (Bonn: Center for Applied Research in Partnership with the Orient, 2017), 17-19, accessed June 25, 2018, https://carpo-bonn.org/wp-content/uploads/2017/12/carpo_policy_report_04_2017.pdf.

[23] Robinson et al., *Yemen Corruption Assessment*, 4.

[24] Robinson et al., *Yemen Corruption Assessment*, 3.

[25] Alley, “Shifting Light,” 55.

[26] Robinson et al., *Yemen Corruption Assessment*, 7.

– actions threatening the power of the regime. The Saleh regime co-opted any actor deemed “powerful enough to pose a threat to the status quo” by offering political and economic benefits.^[27] For any actor whom the regime attempted to co-opt, the choice was between refusal or reprisals, which in extreme cases may include the use of force.^[28] Any actor with a degree of power had an incentive to participate in, rather than oppose, the patronage system.

General People’s Congress Party

The Saleh regime’s efforts to secure political quiescence were aided by the General People’s Congress (GPC) party. The GPC was formed in 1982 with Saleh as its leader. It subsequently expanded in part by co-opting the Local Development Councils (LDCs), a network of civil society organizations with widespread political reach and grassroots influence that during the 1970s and early 1980s played a major role in local development projects, particularly in rural areas.^[29] As the party expanded, it became enmeshed in the fabric of Yemen’s political economy, acting as a useful tool for the Saleh regime in maintaining control. At the peak of Saleh’s power following the 1994 civil war, the GPC dominated Yemen’s political playing field.

Party membership and a position within the upper echelons of the GPC became a common aspiration. Allocating party membership became a source of patronage in itself. The GPC’s Permanent Committee was an important rung on the ladder to securing additional benefits from Saleh, but the ultimate statement of high standing within the party was a position in the General Committee, the GPC’s premiere executive decision making body.

Oil and Gas Revenues

The level of buy-in to the Saleh regime was largely determined by the incentives offered by Saleh’s patronage networks. The entire system hinged on the regime’s ability to continue bankrolling these networks. For this, the regime relied upon oil and gas rents.

[27] Peter Salisbury, “Corruption in Yemen: Maintaining the Status Quo?” in *Rebuilding Yemen: Political, Economic, and Social Challenges*, ed. Noel Brehony and Saud al-Sarhan (Berlin: Gerlach Press, 2015), 65.

[28] Salisbury, “Corruption in Yemen,” 66-68; Alley, “Shifting Light” 65-67.

[29] Sheila Carapico, *Civil Society in Yemen: The Political Economy of Activism in Modern Arabia* (Cambridge: Cambridge University Press, 2009), 38.

Since the discovery of oil in 1984, natural resource revenues have made up by far the largest percentage of Yemen's gross domestic product (GDP). As a result, energy revenues have been the largest contributor to the national budget. The national budget — particularly the portions of the budget that went to the military and the tribes — has little built-in transparency, oversight, or accountability. During the Saleh era supplemental budgets were drafted as each financial year drew to a close; the discretionary nature of these budgets gave the president an “even greater ability to use the budget for political gain rather than for actual development.”^[30]

One of the most important sources of revenue, both for Saleh personally and for his network, was the issuing of oil and gas contracts. Saleh “reportedly asked for money in exchange for granting companies exclusive rights to prospect for gas and oil in Yemen.”^[31] Major procurement contracts in the oil sector were awarded within the patronage network. Beyond providing access to oil facilities, the contracts provided security details for foreign company staff.

One highly profitable benefit provided by the patronage network to a favored few was access to subsidized diesel imports. Although Yemen exports raw crude, it is a net importer of diesel. Actors with access to subsidized diesel imports could then sell the diesel at a profit to foreign firms or on the international market, most often to the Horn of Africa and East Africa.^[32] Besides enriching his patronage network, the fuel subsidies made Saleh himself a great deal of money.

The networks Saleh assembled were the lynchpin of his 33-year rule. Saleh himself is thought to have amassed billions of dollars from his role as the chief conductor of such a widespread system. During his presidency, Saleh is thought to have transferred abroad enormous wealth siphoned from the energy sector, property, and gold, among other commodities.^[33]

[30] Robinson et al., *Yemen Corruption Assessment*, 9.

[31] United Nations Security Council, *Final Report*, 2015, 44.

[32] Salisbury, “Corruption in Yemen;” Alley, “Shifting Light,” 56.

[33] Researcher interviews, October 2017-June 2018.

INEFFECTIVE ANTI-CORRUPTION REFORM

For decades there was little incentive to tackle corruption, as it could threaten the system of patronage that reinforced the government's legitimacy.^[34] In the mid-2000s, however, Yemen began to face pressure from the international community to act on corruption. The subsequent series of reforms drew praise for what appeared to be significant strides in addressing corruption.^[35] However, in the long term, they have proven less than effective and even subject to corruption themselves.

The World Bank warned in the early 2000s that it would cut off its work with the Yemeni government due to its failure to hit development targets and its continued lack of reform.^[36] In early 2005, the Yemeni parliament ratified the UN Convention against Corruption. The parliament called on the government to establish a viable organization for eradicating financial misconduct and enforcing the Money Laundering Act. The parliament further recommended that the government develop the state budget and give broader authorities to local councils.^[37]

In November 2005, the United States' independent aid agency, the Millennium Challenge Corporation (MCC), suspended aid to Yemen, citing a deterioration in rule of law and economic freedom in Yemen.^[38] In response, reform efforts in Yemen gained steam. Members of the Yemen parliament organized a "Parliamentarians Against Corruption" group in December 2005. The group successfully lobbied to form a stronger anti-corruption commission.^[39]

The Yemeni government launched a set of reform measures called the National Reform Agenda (NRA). A main component of the NRA was the decentralization of public services and public works, which required

[34] Interview with Yemen expert, September 8, 2017.

[35] World Bank, *Yemen - Governance and Anti-corruption Diagnostic Survey* (Washington, DC: World Bank, 2010) accessed September 4, 2017, <http://documents.worldbank.org/curated/en/452291468340467002/pdf/705830ESWOP1170usehold0Final-Report.pdf>.

[36] "Yemen's Eligibility for Assistance Reinstated by Millennium Challenge Corporation Board," *Millennium Challenge Corporation*, last modified February 15, 2007, accessed June 25, 2018, <https://www.mcc.gov/news-and-events/release/release-021407-yemenreinstated>; Gregory Johnsen, "Losing Yemen," *Foreign Policy*, November 5, 2012, accessed September 12, 2018, <https://foreignpolicy.com/2012/11/05/losing-yemen>.

[37] "United Nations Convention against Corruption," opened for signature October 31, 2003, *United Nations Treaty Collection* Chapter XVIII: 14, https://treaties.un.org/Pages/ViewDetails.aspx?src=IND&mtldsg_no=XVIII-14&chapter=18&clang=_en.

[38] "Yemen," *Center for Global Development*, accessed June 25, 2018, <https://www.cgdev.org/page/yemen>.

[39] Sarah Phillips, "Evaluating Political Reform in Yemen," *Carnegie Endowment for International Peace*, No. 80, February 2007, accessed September 12, 2018, http://carnegieendowment.org/files/cp_80_phillips_yemen_final.pdf.

modernizing public procurement and bringing related regulations to international standard.^[40] Yemen worked with the World Bank and other international organizations in implementing reforms in the area of civil service management and the development of a comprehensive Human Resource Management System.

The legislative efforts of the NRA started with the National Anti-Corruption Act of 2006, Law No. 39, which established the Supreme National Anti-Corruption Commission (SNACC). The SNACC was tasked with preventing corruption, raising awareness of corruption issues, and investigating corruption cases.^[41] Examining the impact of SNACC over time, however, it did not live up to expectations. Corruption sentences at the time of SNACC's creation were rarely enforced. Despite 165 employees convicted of corruption crimes between 2005 and 2007, no administrative action was taken by the concerned line ministry or the civil service ministry.^[42] While 2,400 corruption complaints were filed from 2007 to 2014, only 71 were heard in court.^[43] Even with the creation of SNACC, enforcement remained limited by lack of political will in other areas of government.

Subsequent components of the NRA included the Financial Disclosure Act of 2007, which required public officials to submit periodically a declaration of personal assets, as well as the assets of family members. However, the Financial Disclosure saw fairly limited compliance: as of 2017, only an estimated 51-75 percent of officials had complied.^[44] The NRA also encompassed the National Procurement Act of 2007, which called upon “procurement officials to demonstrate the highest ethical standards by complying with a Code of Conduct.”^[45] The Yemeni

[40] Organization for Economic Co-operation and Development, *Progress in Public Management in the Middle East and North Africa: Case Studies on Policy Reform* (Paris: Organization for Economic Co-operation and Development, 2010), accessed June 25, 2018, <https://doi.org/10.1787/9789264082076-en>.

[41] “Profiles: Yemen,” *Anti-Corruption Authorities Portal*, accessed August 2, 2017, <https://www.acauthorities.org>.

[42] World Bank, *Republic of Yemen Accountability Enhancement Project* (Washington, DC: World Bank, 2014) accessed June 25, 2018, <http://documents.worldbank.org/curated/en/556711468179032919/pdf/82600-PAD-P148288-PUBLIC-YEAP-PAD.pdf>.

[43] “Despite New Era, Anti-corruption Agenda Struggles in Yemen,” *IRIN*, last modified April 29, 2014, accessed June 25, 2018, <http://www.irinnews.org/analysis/2014/04/29/despite-new-era-anti-corruption-agenda-struggles-yemen>.

[44] Transparency International, *Asset Declarations in Yemen: Illicit Enrichment and Conflicts on Interest of Public Officials* (Berlin: Transparency International, 2016) accessed June 25, 2018, https://www.transparency.org/whatwedo/publication/asset_declarations_in_yemen_illicit_enrichment_and_conflicts_on_interest_of.

[45] “Anti-corruption Agenda Struggles,” *IRIN*.

government also inquired into joining the Extractive Industries Transparency Initiative (EITI), which is designed to improve the transparency of revenue from oil reserves. Yemen later joined the EITI in 2011 but had its membership suspended in February 2015 due to political instability.^[46]

Throughout, the Yemeni government was active in pushing through these programs. Skeptics, however, pointed to the government's repeated failures to implement reform laws. There is little evidence to suggest that the Yemeni government allocated resources to support the actual functioning of these reform programs. Instead, attention was outsourced to the international community to drive and guide anti-corruption efforts. Initiatives were not tackled with the same urgency following Yemen's reinstatement for eligibility by the MCC in 2007. Furthermore, continued economic grievances in Sa'ada and in the South hinted at efforts to maintain the patronage network supporting the Saleh regime.

[46] "Yemen," *Extractive Industries Transparency Initiative*, accessed September 12, 2018, <https://eiti.org/yemen>.

DEEPENING CORRUPTION POST-SALEH

Anti-Saleh Protests and the Gulf Initiative

The patronage networks assembled by Saleh ultimately depended upon the regime's ability to distribute oil wealth. When oil production in Yemen peaked in 2001, the Saleh regime reached a key turning point. As oil production declined over the next decade, the patronage system Saleh assembled became less and less tenable. The regime could no longer confer the benefits it once had; it lost its ability to buy loyalty. Saleh and his cohorts hastened to transfer their money out of Yemen as the political quiescence bought by a broad and inclusive patronage network threatened to unravel.

During this time the Houthi and Southern movements, each fuelled by perceived marginalization, separately accused the regime of widespread corruption and called for change. When the so-called "Arab Spring" unleashed a wave of social unrest across Western Asia and Northern Africa in early 2011, Yemen was not excluded. Anti-Saleh protests were held across the country, with tensions running particularly high in the cities of Taiz, Sana'a, and Aden. Tens of thousands of people in these cities camped out in public spaces, demanding that Saleh step down.^[47] Although the protests were led primarily by youths and activists, a diverse mixture of people from across Yemen's social, cultural, and political spectrum participated and joined in calling for Saleh's departure.^[48]

One of the main underlying sentiments uniting protestors was a shared animosity toward the corrupt system of rule that Saleh had built. Critics argued that Saleh's patronage system ultimately operated at the expense of state institution building and socioeconomic development. Anti-Saleh protesters expressed a desire for a new form of governance to address the country's deepening socioeconomic problems: high levels of inequality, unemployment and poverty that were further compounded by weak institutions, poor public service provision, and embedded corruption.

[47] Tom Finn, "Yemen Protests See Tens of Thousands of People Take to the Streets," *Guardian*, last modified February 3, 2011, accessed June 25, 2018, <https://www.theguardian.com/world/2011/feb/03/yemen-protests-sanaa-saleh>.

[48] "Anti-Saleh Protests Sweep Yemen," *Al Jazeera*, last modified March 2, 2011, accessed June 25, 2018, <https://www.aljazeera.com/news/middleeast/2011/03/20113214474211863.html>.

Protesters' demands for a clean break from the past were met with the use of force by Saleh loyalists, and later overshadowed by an elite power struggle that left the country on the verge of civil war.^[49] The threat of prolonged violence prompted the international community — and Yemen's neighbors in particular — to attempt to mediate the crisis. In November 2011, the Gulf Cooperation Council brokered a deal known as the Gulf Initiative.^[50] Per the terms of the deal, Saleh agreed to step down and hand over the presidency to his long-serving deputy, Abdo Rabbu Mansour Hadi, in exchange for immunity. The deal also saw the establishment of a transitional government, with seats divided evenly between Saleh's General People's Congress (GPC) and the Joint Meeting Parties (JMP), which was dominated by the conservative Islah party.^[51] Many of the youths and activists involved in the anti-Saleh protests rejected the Gulf Initiative. They objected to the immunity granted to Saleh, and they viewed the deal as merely a reshuffling of the same corrupt elites who together shared responsibility for Yemen's underdevelopment.^[52]

One of the central components of the political transition was the ten-month National Dialogue Conference (NDC), which ran from March 2013 to January 2014 and attempted to represent the diversity of Yemeni society.^[53] It aimed to tackle many of Yemen's major socioeconomic and political problems, including the longstanding grievances held by the Houthis and southerners.^[54] Participants attempted to build consensus over a set of recommendations or "outcomes" to guide the

[49] From May 2011 until the signing of the Gulf Initiative in November 2011, Sana'a witnessed sporadic violence between, on the one hand, Saleh, his family, and the elite forces under their command, and on the other hand the tribal and military forces assembled by the al-Ahmar family and Ali Mohsen al-Ahmar; Tom Finn, "Yemen Violence Mounts in Bid to Remove President Saleh," *Guardian*, last modified February 16, 2011, accessed September 28, 2017, <https://www.theguardian.com/world/2011/feb/16/yemen-protests-against-president-saleh>; Letta Taylor, "Yemen's Friday of Indignity," *Huffington Post*, last modified May 18, 2013, accessed June 25, 2018, https://www.huffingtonpost.com/letta-taylor/yemens-friday-of-indignit_b_2900325.html; Mohammed Al Qadhi, "30 More Die in Yemen as Snipers Target Protesters," *National*, last modified September 20, 2011, accessed September 28, 2017, <https://www.thenational.ae/world/mena/30-more-die-in-yemen-as-snipers-target-protesters-1.407552>.

[50] "Gulf Cooperation Council Initiative," Office of the Special Envoy of the Secretary-General for Yemen, November 1, 2011, accessed June 25, 2018, https://osesgy.unmissions.org/sites/default/files/6-gcc_initiative_yemen_english.pdf; "Agreement on the Implementation Mechanism for the Transition Process in Yemen in Accordance with the Initiative of the Gulf Cooperation Council (GCC)," United Nations Peacemaker, May 12, 2011, accessed June 25, 2018, https://peacemaker.un.org/sites/peacemaker.un.org/files/YE_111205_Agreement%20on%20the%20implementation%20mechanism%20for%20the%20transition.pdf.

[51] "Gulf Cooperation Council Initiative;" "Implementation Mechanism."

[52] "Yemen's Saleh Agrees to Transfer Power," *Al Jazeera*, last modified November 24, 2011, accessed June 25, 2018, <https://www.aljazeera.com/news/middleeast/2011/11/2011112355040101606.html>.

[53] *National Dialogue Conference*, accessed June 25, 2018, <http://www.ndc.ye/default.aspx>.

[54] *National Dialogue Conference*.

drafting of a new constitution.^[55] The issues of corruption and the abuse of authority were central topics of discussion within the conference's working groups. Participants spoke of the importance of transparency, accountability, an independent judiciary, freedom of information and freedom of expression (including the freedom to criticize public officials).^[56] However, the reality unfolding in 2014 dashed the hopes pinned on the NDC: violence increased north of Sana'a, frequent acts of sabotage against Yemen's energy infrastructure hampered public services, and the Hadi government was increasingly perceived as mismanaging the Yemeni economy.

Corruption Under the Hadi Government

Abdo Rabbu Mansour Hadi replaced Saleh as president in February 2012 following a one-candidate election.^[57] After assuming the presidency, Hadi sought to distance himself from Saleh and the accusations of corruption lodged against the Saleh regime. However, indicators suggest that the level of corruption in Yemen worsened after Saleh stepped down. Although Yemen has long ranked as "highly corrupt" on the Corruption Perceptions Index produced by the anti-corruption watchdog Transparency International, its corruption score has only worsened since Hadi came to power in 2012.^[58]

According to several public officials, including former ministers that served in the transitional government, corruption deepened under Hadi as patronage payments accelerated.^[59] In Saleh's wake, various political actors within the transitional government found themselves jockeying for position and competing to strengthen their respective support bases. One way they achieved this was to pay "wages, bills, and

[55] "Record of the Comprehensive National Dialogue Conference," *Office of the Special Envoy of the Secretary-General for Yemen*, 2014, accessed June 25, 2018, https://osesgy.unmissions.org/sites/default/files/7-national_dialogue_conference.pdf; "2015 Draft Yemeni Constitution," *International Institute for Democracy and Electoral Assistance*, January 15, 2015, accessed June 25, 2018, <http://www.constitutionnet.org/sites/default/files/2017-07/2015%20-%20Draft%20constitution%20%28English%29.pdf>.

[56] *Final Communiqué*.

[57] As a result of replacing Saleh, Hadi became entrusted with the responsibility of overseeing Yemen's scheduled two-year transition, as mapped out in the Gulf Initiative. The transition was originally scheduled to conclude with fresh parliamentary and presidential elections. However, Hadi ultimately extended his presidency and no elections were held. Much to the chagrin of his critics, Hadi remains president at the time of writing, operating from exile in Saudi Arabia; Laura Kasinof, "Yemen Swears In New President to the Sound of Applause, and Violence," *New York Times*, last modified February 25, 2012, accessed June 25, 2018, <https://www.nytimes.com/2012/02/26/world/middleeast/abed-rabu-mansour-hadi-sworn-in-as-yemens-new-president.html>.

[58] "High Corruption Burden," *Transparency International*.

[59] Salisbury, "Corruption in Yemen," 72-73.

overheads” that reportedly “reached successive new record levels in 2012, 2013 and 2014 despite an acknowledged decline in government effectiveness and service provision.”^[60]

The Hadi government lacked transparency in how it disbursed the huge amounts of money provided by donor countries to help alleviate the country’s economic and humanitarian crises. Saudi Arabia pledged US\$2 billion in July 2014, with roughly a quarter of this designed to facilitate social welfare payments via the Social Welfare Fund.^[61] However, this money allegedly did not reach its intended recipients — Yemen’s poorest citizens — and there was no way of tracing where the money went.^[62] In late 2013 Qatar pledged US\$350 million to be distributed to southerners who, during the 1994 North-South civil war, had been forcibly retired or had had property stolen.^[63] Qatar deposited US\$150 million shortly after the pledge was made; however, the money reportedly did not reach its intended beneficiaries.^[64]

Even as the most vulnerable members of society suffered, the Hadi government cut fuel subsidies by 90 percent in August 2014, which ran contrary to the International Monetary Fund and the World Bank’s advice advocating for the gradual reduction of subsidies.^[65] In 2014, the Hadi government spent US\$12.2 billion; however, seemingly none of it was channelled into local development projects, social welfare payments, or job creation.^[66]

Anti-corruption Rhetoric

However, Hadi did attempt to position himself as a force for anti-corruption. In late 2012 the Hadi government canceled a 2008 deal with Dubai-based ports company DP World to manage Aden Port for a 25-

[60] Salisbury, “Corruption in Yemen,” 72-73.

[61] Peter Salisbury, “Yemen’s Astonishing Financial Meltdown,” *Foreign Policy*, last modified December 11, 2014, accessed June 25, 2018, <http://foreignpolicy.com/2014/12/11/yemens-astonishing-financial-meltdown>.

[62] Salisbury, “Financial Meltdown.”

[63] “Qatar Pledges \$350m to Yemen Fund for Sacked Civil War Workers,” *Arabian Business*, last modified September 11, 2013, accessed June 25, 2018, <http://www.arabianbusiness.com/qatar-pledges-350m-yemen-fund-for-sacked-civil-war-workers-517633.html>.

[64] Salisbury, “Financial Meltdown.”

[65] International Monetary Fund, IMF Country Report No. 10/300, September 2010, accessed June 25, 2018, <https://www.imf.org/external/pubs/ft/scr/2010/cr10300.pdf>; “Yemen Fuel Subsidy Cut Drives Poorest Deeper into Poverty,” *Guardian*, last modified August 26, 2014, accessed June 25, 2018, <https://www.theguardian.com/global-development/2014/aug/26/yemen-fuel-subsidy-cut-drives-poorest-poverty>.

[66] Researcher interview, May 2018.

year period.^[67] Hadi's transitional government framed the departure as a tangible result for its anti-corruption agenda. However, even its own investigation found no evidence of corruption in the brokering of the deal.^[68] It was also an expensive gesture: the government paid a hefty fine to DP World for breaching the terms of the contract, and DP World filed a lawsuit against the lawyers who brokered the deal.^[69]

In mid-2013 the Hadi government claimed to combat corruption by renegotiating agreements reached in 2005 between Yemen LNG and foreign energy companies — agreements that had been closely affiliated with Saleh. By targeting these high-profile deals, Hadi and the transitional government sought to distance themselves from Saleh and to signal action on their stated intention to combat corruption. Per the agreements, Yemen LNG supplied liquid natural gas (LNG) at a heavily discounted rate to the South Korean energy company KoGas and the French energy company Total. Although KoGas did agree in February 2014 to pay more for Yemen LNG-supplied gas, it did so in accordance with the contractual stipulations of the initial 2005 agreement, which stated that the LNG price could be renegotiated in 2014.^[70]

In the case of Total, critics argued that Hadi may in fact have been looking to supplant Saleh and promote himself and his allies as the preferred point of contact.^[71] The Hadi government was ultimately unable to reach an agreement with the French company.^[72] Despite the anti-corruption rhetoric, the investigations that were ordered into the DP World and LNG deals were arguably aimed only “at denting the economic interests of a few key players while building public support for the government;” and as a result, “marked a continuation of, rather than a break from, Saleh-era practices.”^[73]

[67] “DP World Quits Aden,” *World Cargo News*, last modified September 20, 2012, accessed June 25, 2018, <https://www.worldcargonews.com/news/news/dp-world-quits-aden-29369>.

[68] “Yemen’s Aden Port to Cancel DP World Deal - Official,” *Reuters*, last modified August 26, 2012, accessed June 25, 2018, <https://www.reuters.com/article/yemen-port-dpworld/yemens-aden-port-to-cancel-dp-world-deal-official-idUSL5E8JQ2ZX20120826>.

[69] Salisbury, “Corruption in Yemen,” 62-63, 68, and 70-72; Researcher interview, May 2018.

[70] Salisbury, “Corruption in Yemen,” 62-64 and 71-73.

[71] Salisbury, “Corruption in Yemen,” 62.

[72] Salisbury, “Corruption in Yemen,” 71.

[73] Salisbury, “Corruption in Yemen.” The security sector reforms that President Hadi ordered via presidential decree in December 2012 and April 2013 have also been interpreted as a direct ploy by Hadi to weaken Saleh. The December decree brought with it the formal restructuring of Yemen’s armed forces, while April decree removed Saleh’s relatives from their prominent positions within Yemen’s armed and security forces. For more details, see Marwan Noman and David S. Sorenson, “Reforming the Yemen Security Sector” (working paper, Center on Democracy, Development, and the Rule of Law, Stanford University, 2013) accessed June 25, 2018, https://fsi-live.s3.us-west-1.amazonaws.com/s3fs-public/No_137_Yemen.pdf;

The Houthis

The Houthis' rise to prominence from a marginalized Zaydi revivalist group battling for survival in their Sa'ada stronghold against Yemeni government forces during six rounds of conflict in the 2000s, to one that later took control of large swathes of territory in Yemen, owed as much to its military experience and capabilities, as it did the ability to appeal to populist sentiments.^[74]

The Houthis participated in the anti-Saleh protests in 2011 and the National Dialogue Conference (NDC). Yet while they engaged in politics they also consolidated their control over Sa'ada before expanding into other northern governorates such as al-Jawf, Hajjah, and Amran.^[75] Having entered mainstream politics, the Houthis and their leader, Abdulmalek al-Houthi, campaigned successfully on an anti-establishment, anti-corruption ticket. Hadi and the transitional government were often singled out for criticism based on accusations of corruption and poor public service delivery.

In August 2014, the Houthis capitalized on Hadi's decision to cut fuel subsidies: they encamped in and around Sana'a demanding the subsidies' reinstatement.^[76] In September 2014, with the presumed support of their former adversary Saleh, they took de facto control of Sana'a, forcing Hadi to make a series of political concessions.^[77]

The Houthis' anti-corruption agenda seemed to be targeted at a specific group of actors, namely members of the Islah party and Islah-linked individuals whom the Houthis denounced as corrupt. Within a month of taking control of large parts of the capital, the Houthis

[74] International Crisis Group, *The Huthis: From Saada to Sanaa*, Middle East Report No. 154, June 10, 2014, accessed September 28, 2017, <https://d2071andvip0wj.cloudfront.net/the-huthis-from-saada-to-sanaa.pdf>; Barak A. Salmoni, Bryce Loidolt, and Madeleine Wells, *Regime and Periphery in Northern Yemen* (Arlington, VA: RAND Corporation, 2010) accessed June 25, 2018, https://www.rand.org/content/dam/rand/pubs/monographs/2010/RAND_MG962.pdf.

[75] Salmoni, Loidolt, and Wells, *Regime and Periphery*.

[76] Mohammed Ghobari, "Tens of Thousands of Yemeni Houthis Protest against Govt in Capital," *Reuters*, last modified August 22, 2014, accessed June 25, 2018, <https://www.reuters.com/article/us-yemen-protests/tens-of-thousands-of-yemeni-houthis-protest-against-govt-in-capital-idUSKBN0GM12C20140822>.

[77] Fares al-Jalal, "Yemen's Year of Destruction: The Houthi Takeover of Sanaa," *New Arab*, last modified September 21, 2015, accessed September 28, 2017, <https://www.alaraby.co.uk/english/politics/2015/9/21/yemens-year-of-destruction-the-houthi-takeover-of-sanaa>; Shuaib Almosawa and David D. Kirkpatrick, "Yemen Rebels Gain Concessions from Government after Assault on Capital," *New York Times*, last modified September 21, 2014, accessed June 25, 2018, <https://www.nytimes.com/2014/09/22/world/middleeast/yemens-prime-minister-resigns-amid-chaos-and-another-cease-fire.html>; "Peace and National Partnership Agreement," conclusion date: September 21, 2014, *European Parliament*, http://www.europarl.europa.eu/meetdocs/2014_2019/documents/darp/dv/darp20141204_05_/darp20141204_05_en.pdf.

had successfully driven out many of their staunchest adversaries affiliated with Islah, such as the family of Hamid al-Ahmar family and Ali Mohsen al-Ahmar (no relation to the al-Ahmar family).^[78] Other individuals who had been widely perceived as corrupt, including Saleh and his close family members and associates, were not targets of the Houthis anti-corruption campaign. This came as a surprise to many in Yemen at the time and opened up the Houthis to the claim that their anti-corruption rhetoric was, like that of their predecessors, a tool to advance their own interests and undermine those of their political and ideological opponents.

After gaining control of Sana'a, the Houthis continued to hold Hadi and the transitional government ransom throughout the remainder of 2014 and January 2015. Part of the pressure that the group applied, which prompted Hadi to resign before fleeing to Aden where he then withdrew his resignation, was to continually call out Hadi and his cohorts on allegations of corruption.^[79]

[78] Ali Mohsen led the Yemen government forces' anti-Houthi offensives during the "six Sa'ada wars" from 2004 until 2010. According to one interviewee who lived through these events while based in Sana'a, Hamid al-Ahmar had anticipated this and had already transferred money out of Yemen.

[79] Mohammed Ghobari, "Houthis Block Yemen Army Chief, Accuse President of Corruption," *Reuters*, last modified December 16, 2014, accessed June 25, 2018, <https://www.reuters.com/article/us-yemen-houthis-hadi-idUSKBN0JU16V20141216?feedType=RSS&feedName=topNews>; Mohammed Ghobari and Mohammed Mukhashaf, "Yemen's Hadi Flees to Aden and Says He is Still President," *Reuters*, last modified February 21, 2015, accessed June 25, 2018, <https://www.reuters.com/article/us-yemen-security-idUSKBN0LP08F20150221>. After arriving in Aden, Hadi was besieged by Houthi militias and Saeh forces, prompting him to flee to Riyadh, Saudi Arabia, and call for outside military support, which arrived in the form of the Saudi-led coalition on March 26 2015.

CORRUPTION IN YEMEN'S WAR ECONOMY

As Yemen's war has evolved since March 2015, so too has its burgeoning war economy. 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 much grayer; networks of corruption transcend the conflict, seamlessly crossing frontlines and regional borders, with perceived adversaries cooperating for the sake of maximizing profits. For those who profit from the conflict, this cooperation creates an incentive to thwart peace efforts. It also forms the basis for the kind of informal institutions that could potentially undermine good governance in a post-war context, preventing the so-called "peace dividend" that policymakers hope prevents recidivism to conflict.

A wide array of actors, interests, and activities shape Yemen's thriving war economy at many different levels, including senior decision makers and military commanders; established and newly empowered businessmen; local security officials that control checkpoints; commercial bankers and money exchangers; and truck drivers and civil servants, among others. Corruption is both systematic and apolitical, with actors from across Yemen's broad social, political, and economic spectrum all engaged in the corrupt activities underpinning Yemen's war economy.

While there has been a great deal of debate over the type and amount of Iranian manufactured weapons reportedly being smuggled into Yemen, and how they are entering the country, indicators suggest that weapons flows to the Houthis pass through areas that are nominally under the control of the internationally recognized Yemeni government.^[80] Notably, there were no weapons seizures off Yemen's western coastline during the whole of 2017 and the first half of 2018. The ease with which weapons are being transferred from Yemen's eastern governorates, particularly al-Mahra and Shabwa, to Houthi-controlled areas via al-Bayda or Marib governorates is testament to the fact that "business as usual" continues with regard to weapons smuggling. As long as each

[80] Yara Bayoumy and Phil Stewart, "Exclusive: Iran Steps Up Weapons Supply to Yemen's Houthis via Oman - Officials," *Reuters*, last modified October 20, 2016, accessed June 15, 2018. <https://www.reuters.com/article/us-yemen-security-iran/exclusive-iran-steps-up-weapons-supply-to-yemens-houthis-via-oman-officials-idUSKCN12K0CX>; Joyce Karam, "Mattis to Discuss Arms Smuggling into Yemen on Oman Trip," *National*, last modified March 12, 2018, accessed June 15, 2018. <https://www.thenational.ae/world/mena/mattis-to-discuss-arms-smuggling-into-yemen-on-oman-trip-1.712229>.

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.

The overlap between politics and economics and the contradictions this overlap creates is as inescapable in Yemen as any other country. The diversity of the actors engaging in corrupt activities illustrates that no one individual or group is solely culpable. Instead, it points to a hard fact: what external analysts might see as illicit and corrupt practices that undermine the prospects for peace and good governance in Yemen are widely accepted as normal transactions among many of the country's power brokers: these are the rules of the game, and this is simply the cost of doing business.

The events that followed Saleh's departure as president in 2012 suggest that it does not matter who is in charge; whoever holds the keys to power in Yemen is susceptible to corruption due to the fact that corruption is already so deeply entrenched and there are no effective checks and balances in place.

Changing Political and Economic Landscape

In Houthi-controlled areas, the Houthis and their affiliates are in a dominant position to dictate terms, having increasingly established influence over formal and informal state institutions. Among the main revenue streams that the Houthis (and their affiliates) have exploited and, to varying degrees, captured during the conflict are those tied to the import, distribution, and sale of fuel in Houthi-controlled areas (which will be covered in more detail below), customs and taxation, the telecommunications sector, and car imports.^[81] The Houthis have also used the Central Bank of Yemen (CBY) and Yemen's state-owned commercial bank, the Cooperative and Agricultural Credit Bank (CAC Bank) in Sana'a as an instrument to enable the Houthi economy to function.

[81] 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.

The main sources of revenue bankrolling the Houthi economy serve two functions. The first serves the collective, whereby the revenues are designed to increase the financial capacity of the group as a whole and subsequently aid their ability to continue fighting. The second is on an individual basis, whereby certain Houthi-affiliated businessmen and companies are making large sums of money and are eager to continue doing so.

The situation is more complicated in non-Houthi-controlled areas, where different actors control different sources of revenues. The non-Houthi-controlled areas are nominally under the authority of the internationally recognized Yemeni government. For large periods of the conflict, President Hadi and members of his cabinet have operated from exile in Riyadh, Saudi Arabia, where Hadi remains at the time of writing. Other domestic and regional actors have filled the political and security vacuum left by the government.

In the governorates that collectively comprise what used to be known as South Yemen, the UAE and UAE-backed actors, such as the pro-independence Southern Transitional Council (STC), are in the driving seat, at least in terms of influence on the ground. Moreover, a large part of Yemen's coastline, which 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 being monitored and supervised by the UAE directly or through UAE-backed security and political actors. UAE-backed security forces, such as the Hadrami and Shabwani Elite forces are also in a position to influence developments at the key energy facilities in both Hadramawt and Shabwa.^[82]

Meanwhile, the country's other major energy facilities in Marib are under the control of local government authorities led by Governor Sultan al-Aradah. As the conflict has unfolded, the local governing authorities in both Marib and Hadramawt have made their own advances in terms of achieving greater regional autonomy; including obtaining an increased stake in the economic resources located within their respective governorate territories. That said, and as will become clearer in the following sections, some of Hadi's closest associates have reportedly been able to exert their own commanding influence over Yemen's key economic resources and institutions. The engagement of these actors in their own business-oriented activities has collectively shaped the changing face of the high level of state capture in Yemen by a range of domestic, and by extension, regional actors.

[82] 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.

Defining Corruption in Wartime Yemen

Rule of law tends to be weak in countries afflicted by internal conflict. A definitive conclusion as to whether certain acts or practices should be considered either illegal or corrupt can prove elusive. In the absence of security, stability, and law and order, the margins are blurred.

For example, returning to the question of weapons smuggling into Yemen, the trafficking of arms is an illicit activity facilitated by regional arms networks. Under UN Security Council Resolution 2216, arms trafficking is arguably an illegal act as opposed to a blatant form of corruption. However, the sale of state-allocated weapons and military equipment by military officials from the Yemeni national army for personal gain is an abuse of state-mandated authority and thus represents a form of corruption. Soldiers overseeing checkpoints who demand fees to allow licit and illicit goods to pass through uninhibited are also guilty of corruption, as the soldiers are abusing their authority for personal gain.

This paper will cover some of the more obvious examples of the corrupt practices that actors are exploiting under the cover of violence, which include the corruption taking place within the framework of the respective pro- and anti-Houthi military structures and security apparatuses, and in the crucial fuel import sector. An attempt will also be made to make the case for why these acts should be considered corrupt.

Specific Mechanisms of Corruption Facilitated by the Conflict

Military Corruption

The issue of “ghost soldiers” – the inflation of military payrolls with non-existent soldiers – continues to be a major source of patronage, and therefore corruption, for actors operating within Yemen’s military and security apparatus. Some of the primary offenders in the current conflict are senior military commanders operating under the banner of the internationally recognized Yemeni government. These senior officers are incentivized to grossly exaggerate the number of soldiers under their command by the financial reward of pocketing excess salary payments as well as additional rewards that accrue to those commanding larger forces. Government officials are also thought to be complicit in this scheme.^[83]

[83] 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>.

Senior military commanders also receive prorated weapons, ammunition, fuel, vehicles and other important equipment in accordance with the (inflated) number of soldiers under their command. The commander has the power to determine the amount distributed to soldiers versus pocket for themselves. The allocation of funds intended as soldiers' salaries coupled with the allocation of weapons, ammunition, and other military equipment for each soldier enables the commander to increase their profit margins.

The money for this comes primarily from the two dominant members of the Saudi-led coalition, Saudi Arabia and the United Arab Emirates. The presence of these two wealthy patrons increases the incentive for the different anti-Houthi tribal, military, and security commanders that both countries are backing in north and south Yemen to fabricate the number of men under their command, in view of reaping as much benefits as possible (e.g. the payment of salaries or provision of equipment). Yemeni military commanders are effectively extracting rents from the notable energy resources both countries have at their disposal.

For Saudi Arabia and the UAE, the materiel provision arguably goes beyond merely enhancing fighting capability, and in many cases is a political, allegiance-building measure. The UAE and/or Saudi provisions can easily be viewed as “kingmaking” endeavors, whereby military command is itself a way for the UAE/Saudi coalition to create and forge long-running alliances in a post-conflict environment.^[84] This kind of dynamic creates local competition for sponsorship, as each commander seeks largesse from either Saudi Arabia or the UAE.

The “ghost soldier” scheme is possible due to how military salaries are distributed: in addition to their own salaries senior military commanders often receive the salaries of all those listed under their command. 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.^[85] This number is almost certainly inflated and is thought to include money paid to secure the backing of local tribes.^[86]

[84] Saudi Arabia, more so than the UAE has a long history of trying to forge this kind of patron-client relationship in Yemen, particularly with northern tribesmen.

[85] Researcher interviews, Cairo, February and March 2018.

[86] Researcher interviews, Cairo, February and March 2018.

Senior military commanders, such as those based in Marib governorate, reportedly profit handsomely from the sale of weapons and military equipment. There are also many instances in which individual soldiers themselves sell heavy weapons and military vehicles provided by either the internationally recognized Yemeni government or the Saudi-led coalition to anyone who meets their asking price. According to several independent sources, senior commanders and their subordinates reportedly sell weapons to interested buyers either directly, through intermediaries, or via the local arms market.^[87]

With regard to the distribution of soldiers' salaries, it would appear that senior anti-Houthi military commanders are using as cover Yemen's economic crisis and the difficulties faced by the internationally recognized Yemeni government in paying civil servant salaries. The money allocated for the payment of soldiers is reportedly not trickling down to those who are in fact present on the battlefield, including new recruits being sent to the frontlines.^[88]

Lower down the chain of command are anti-Houthi military and security personnel registered for payment on more than one command roster. These fighters are "double dipping": they take two separate salaries from two different sources. 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.^[89]

The overlap stems from the fact that President Abdo Rabbu Mansour Hadi ordered the formal integration of Security Belt into the Ministry of Interior in March 2017.^[90] While the announcement did little to alter the UAE's strong influence over Security Belt, it provided Security Belt members the opportunity for an additional source of income. Members of Security Belt may not be wholly responsible for this apparent form of administrative corruption; poor internal bookkeeping from the

[87] Researcher interviews, Cairo February 2018, and Beirut, April 2018.

[88] *Ibid.*

[89] Private conversations with Adeni activist, April and June 2018.

[90] The announcement was made after the clashes that occurred a month earlier in and around Aden International Airport between UAE-backed forces, including Security Belt, and forces loyal to Hadi, namely the presidential protection forces commanded by Hadi's son, Nasser Abdo Rabbu Mansour Hadi.

Ministry of Interior, which reportedly did not record the names of all Security Belt officers, introduced an element of confusion. This created a situation in which some members of Security Belt were on both the UAE's and the Yemeni Ministry of Interior's list of officers, while other members were only registered on the UAE list and thus not able to receive a salary from the ministry of interior. As a result, the UAE continued paying all members to avoid any discontent.

In kleptocracies, the logic of loot is self-reinforcing, which is to say that at some point the common understanding of graft leads to personnel at all levels operating to perpetuate corrupt systems and to develop administrative systems (such as inventory management, personnel accounting, etc) specifically for the purpose of extracting individual benefits.^[91] Because this conduct is being systematically financed by both Saudi Arabia and the UAE, it almost ensures that local actors will continue to seek these benefits for as long as the two most prominent members of the Saudi-led coalition are willing to finance them.

The Houthis meanwhile have been accused of diverting money from the CBY in Sana'a to pay for their military campaign.^[92] 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 that the group installed in the Ministry of Interior in Sana'a (and other Houthi-run ministries) as part of a broader strategy in which they sought to replace Saleh loyalists with Houthi supporters over the course of 2016 and 2017.^[93]

In a series of conversations between October and December 2017 with a former employee at the Houthi-controlled Ministry of Interior in Sana'a, a contact of the author claimed that the Houthis were installing many young, inexperienced, unqualified individuals in senior positions at the ministry.^[94] The same source described how this approach was being replicated elsewhere as part of an attempt to weaken Saleh and his allies' hold over north Yemen's military and security apparatus,

[91] *Ibid.*

[92] This particular accusation is what prompted Hadit 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-idUSKCN11O0WB>.

[93] 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.

[94] *Ibid.*

with the Republican Guard one of the main targets.^[95] 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.

Fuel

The most lucrative branch of Yemen's energy sector during the conflict has been fuel imports. Two key developments in 2015 gave fuel imports added importance. First, fighting on the ground led to a sudden decline in domestic oil and gas production, the cessation of oil and gas exports, and the departure of foreign energy companies. Second, the Houthis decided 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 to ease fuel import restrictions.^[96]

After Yemen's oil and gas facilities went offline, the country became dependent on fuel imports. This shift presented a significant money-making opportunity both for established players and for those looking to capitalize on the country's fuel needs. The removal of state-subsidized oil, as well as the opening up and privatization of the fuel import market, provided fuel importers with an added incentive to fill the space previously filled by the state-run Yemen Petroleum Company (YPC).

One of the possible explanations behind the decision to liberalize fuel imports and domestic fuel sales in Houthi-controlled areas is that the Houthis sought to remove a barrier that had previously excluded them, and others, from Yemen's biggest source of revenue. As noted by a senior kleptocracy analyst currently working on a Yemen war economy project, whenever standing institutions create obstacles to those eager to establish their own kleptocratic regime, actors within the regime will create parallel or alternative systems to replace or supercede those that already exist.^[97]

[95] Ibid.

[96] 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>.

[97] Private conversation with a senior kleptocracy analyst currently working on Yemen war economy project, June 2018.

Initially Yemen's liquidity crisis placed at an advantage those fuel importers and/or brokers with significant external resources and well-established regional networks. However, new, Houthi-affiliated businessmen gradually leveled the playing field by learning from — before disposing of — several established players.^[98] This can be partly explained by their control over Hudaydah Port and CAC Bank in Sana'a, the pressure they placed on other fuel importers, and the clever use of Yemen's hawala networks to access foreign currency.

As pockets of relative stability emerge in Marib, Hadramawt and Shabwa governorates, where the majority of Yemen's energy resources and infrastructure are located, various local actors on the ground have positioned themselves to benefit in the future as production and export facilities eventually come back online. Foreign energy companies such as the Austrian company OMV have also begun to return to Yemen to resume operations halted in 2015.

The revitalization of Yemen's fuel infrastructure will likely create additional incentives for those looking to benefit financially from such a development. The same rule will also apply when Yemen's LNG export facilities come back online and LNG exports climb toward pre-war levels. Stability is itself a currency, and in these areas rich in natural resource, security guarantees will likely be used not only to attract international investments and potentially lucrative contracts for service providers, but also to enhance political/financial positions.

Issuing of Fuel Import Licenses Before the Installation of UNVIM

The Saudi-led coalition's military intervention in 2015 brought with it the imposition of an aerial and naval blockade, after which commercial importers wishing to bring goods into Yemen were required to obtain authorization from the internationally recognized Yemeni government and the Saudi-led coalition. For commercial importers wishing to import items — including fuel — via ports not under the control of the internationally recognized Yemeni government, the official procedure required applications to be submitted via the government's ministry of transportation.^[99]

[98] 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.

[99] At the time, ports not under the control of the internationally recognized government included Hudaydah, Ras Issa, and Saleef in Hudaydah governorate, and Mokha port in Taiz governorate; "United Nations Verification and Inspection Mechanism (UNVIM)," *United Nations Verification and Inspection Mechanism*, accessed June 15, 2018. <https://www.vimye.org/home>;

However, the coalition was prepared to accept commercial import requests for ports that were then under the control of the Houthi-Saleh bloc (before the death of Saleh in December 2017 and the breakup of that alliance) only if the request had President Hadi's seal of approval. This subsequently 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.^[100]

According to a number of sources interviewed by the author, Jalal capitalized on his ability to secure his father's approval for certain fuel import applications. Although official documentation has proved difficult to obtain, based on various media reports and anecdotal evidence Jalal is said to have used his direct access to his father to demand a sizeable commission from any fuel trader looking to import fuel into Yemen.^[101] Jalal reportedly not only demanded commission for fuel imports, but for all imports entering Hudaydah.

If the above account is indeed accurate, established fuel traders would have needed to get close to Jalal, or at least find an effective middleman with ties to Jalal, in order to have Jalal ask his father to submit a request for fuel to be imported on their behalf. Supposedly, Jalal dealt mainly with Ahmed Saleh al-Eisi, a wealthy businessman who has longstanding ties with the Hadi family.^[102] The alleged close business relationship between Jalal and al-Eisi has been the subject of media speculation with numerous corruption claims lodged against them.

Al-Eisi's monopolization of fuel imports to Aden will be covered in more detail later; it is however worth noting here two recurring claims. Al-Eisi and Jalal are accused of trying to reduce potential competition for al-Eisi at Aden port and refinery as well as at Ras Issa marine terminal.

[100] 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>.

[101] Marwan Ghafouri, "The Saudis About Hadi: Thief and Dogs," last modified March 27, 2016, accessed June 15, 2018, <http://adenalgd.net/news/198655>; Jalal is accused of claiming up to 50 percent commission on occasion for an undisclosed amount of fuel import deals that he helped get the approval for from his father Hadi and the Saudi-led coalition; Researcher Skype interview, January 2018.

[102] Al-Eisi's relationship with Hadi began shortly after the 1994 North-South civil war while Hadi was minister of defence. More recently, al-Eisi serves as an economic adviser to President Hadi from 2012-2014 before being appointed as a minister of state in 2015. Al-Eisi is the current Deputy Director of the Office of the President for Economic Affairs.

Al-Eisi's influence regarding Ras Issa stems from the fact that in 2013 there was a "merger" of YPC and al-Eisi-owned assets, which resulted in what is thought to be a public-private venture.^[103] Al-Eisi and Jalal are also accused of profiting from an arrangement whereby they imported fuel to Yemen from Saudi Arabia and on occasion allegedly exported this oil to the Horn of Africa.^[104]

While reports claim that al-Eisi received the most preferential treatment from Jalal, certain Houthi-affiliated businessmen have also reportedly established a good working relationship with Jalal as a result of obtaining fuel import permits for Hudaydah through him. They have obtained these permits through middlemen that broker the deals in Sana'a that are then signed off on in Riyadh. Moreover, there was no escaping the looming international pressure to allow fuel to reach Houthi/Saleh-controlled areas, which since December 2017 are solely under Houthi control.^[105] The larger incentive though was arguably the allure of capitalizing on a potential business opportunity.

A former general manager of Yemen Petroleum Company (YPC) who then went on to become the Sana'a-based YPC chairman when the state-run company split in two, Ali al-Taifi, allegedly brokered the deals between Houthi fuel traders and Jalal.^[106] If true, the deals that were supposedly agreed to in Sana'a and signed off on in Riyadh highlight one of the major forms of economic cooperation that has gone on between perceived adversaries who exploit the conflict for their own financial gain.^[107] Fuel importers that were aligned neither with the Houthis nor with associates of the internationally recognized Yemeni government have been portrayed by several sources interviewed by the author as the victims of the cooperation taking place between the two parties, with one confidential source claiming that they were being charged up to US\$1 million per shipment to import fuel into Hudaydah.^[108]

[103] It is unclear whether al-Eisi technically owns Ras Issa or whether the terminal was leased to him from YPC.

[104] Ibid; "Jalal Hadi and Ahmed al-Issa Sell Alliance Oil in East Africa," *Shabwa Press*, last modified May 6, 2017, accessed June 15, 2018. <http://shabwaah-press.info/news/43026>; According to a source with years of experience working in Yemen's oil industry who was interviewed by the author in January 2018, from the late 1990s until 2011, Ahmed al-Eisi used to smuggle oil to East Africa via Socotra. They carried out this smuggling operation by transferring higher volumes of oil than actually needed to satisfy local needs before forwarding the excess to East Africa for profit.

[105] Researcher interview, January 2018.

[106] There are two main branches of the YPC: the Houthi-controlled branch that is based in Sana'a and the branch in Aden under the control of the internationally recognized Yemeni government.

[107] Mohamed al-Absi, "Yemenis as Victims of Competition between Black Fuel Markets and their Brokers," *Mohamed al-Absi* (blog), November 6, 2016, accessed June 25, 2018, https://mohamedalabsi.blogspot.com/2015/11/blog-post_36.html.

[108] Researcher interview, January 2018.

Monopolization of Fuel Imports and Marginalization of Competitors

Since 2015, a small group of businessmen have exerted varying degrees of control over different areas and aspects of Yemen's fuel industry. Hudaydah is largely under the control of Houthi-affiliated fuel importers, who, after gaining an initial foothold in the Hudaydah fuel market then surpassed more established players such as CruGas and Alhuthaily Group.^[109] Ahmed al-Eisi is the dominant player in Aden, with Alessi Group holding a controlling influence over Aden Refinery Company (ARC). While technically al-Eisi does not hold a monopoly and ARC contracts are tendered, al-Eisi is the only one with the necessary capital and free use of YPC/ARC storage facilities.

Hadi issued a decree on March 5, 2018 “liberalizing” fuel imports in areas under the nominal control of the internationally recognized Yemeni government. Thus far there have been no visible changes in Aden since the decree. The situation in Mukalla in Hadramawt governorate is less clear-cut with several fuel importers, including al-Eisi, operating there. The following section will focus on how the Houthis and al-Eisi gained their controlling stakes in the local Hudaydah and Aden fuel markets.

Aden

Ahmed Saleh al-Eisi has a monopoly over fuel imports — and, by default, distribution — due to his unrivalled influence over Aden Refinery Company (ARC) and his dominance of the local fuel market. ARC is the sole entity authorized to import fuel into Aden, while YPC is the sole authorized distributor. This means that Alessi Group's monopoly over ARC, in addition to handing al-Eisi control of fuel distribution to forces affiliated with the internationally recognized Yemeni government and the Saudi-led coalition, also gives him control over the fuel needed to power local electricity facilities. The latter has proven particularly frustrating for people in Aden, including the head of the Southern Transitional Council Council (STC) and former Aden governor Aiderous al-Zubaidi. Al-Zubaidi and other pro-independence southern leaders and activists hold the internationally recognized Yemeni government and its associates directly responsible for the frequent electricity shortages due to a lack of fuel.

[109] 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.

According to well-placed sources, Al-Eisi is aided in his dominance of this sector by his ownership of the top maritime fuel transportation company in Yemen, Alessi Group. Rigged tender bidding processes essentially hand al-Eisi the procurement contract for supplying fuel to Aden: the contract contains conditions that include a tight fuel delivery deadline that no other applicant can meet.^[110]

Al-Eisi's close ties with the internationally recognized Yemeni government – particularly President Hadi, Jalal, and the general manager of Aden Refinery, Mohammad Abdullah Abubakr al-Bakari – coupled with the influence he exerts over the local fuel market in Aden make him an ominous opponent for public officials who have levelled charges of corruption against him. In addition to allegations of corruption involving the fuel procurement contracts discussed above, other allegations of corruption are as follows: (1) al-Eisi is reportedly afforded the luxury of having fees waived for the use of fuel storage tanks and customs duties that are normally imposed on fuel imports that operate in Aden; (2) al-Eisi owes outstanding debts to YPC that he not only refuses to pay has responded to by claiming that in fact the YPC owes him money for the loss of equipment at Ras Issa marine terminal in Hudaydah; (3) al-Eisi influences the removal and hiring of personnel at ARC.^[111]

According to two individuals with a first-hand knowledge of the transformation of Ras Issa terminal during the conflict, the terminal has allegedly closed at the behest of al-Eisi, who owns the facility.^[112] Although fuel exports from Ras Issa terminal ceased after the Saudi-led coalition military intervention, the terminal was reportedly then used to receive approved imports into Houthi-controlled areas; fuel was unloaded and stored in YPC storage facilities located at the terminal before being loaded onto fuel transportation trucks and distributed to the local market. Ahmed al-Eisi pressured President Hadi to announce in August 2017 that Ras Issa terminal was being closed for “security reasons.”^[113]

This announcement was reportedly a smokescreen for al-Eisi's personal desire to close Ras Issa. Per the sources cited above, al-Eisi wanted Aden to be the only operational deep-sea port in Yemen.^[114] Ras Issa

[110] Private conversations with a Yemeni fuel trader, January-March 2018.

[111] Private conversations with a Yemeni fuel trader, January-March 2018.

[112] Private conversations with a Yemeni fuel trader and a Yemeni broker, March 2018.

[113] Private conversations with a Yemeni fuel trader and a Yemeni broker, March 2018.

[114] Private conversations with a Yemeni fuel trader and a Yemeni broker, March 2018.

terminal is a deeper port than Hudaydah and is able to accommodate larger oil tankers. Because larger tankers have more capacity they are able to deliver oil at a lower cost per shipment. Ras Issa's closure thus forced Hudaydah-bound traffic to use smaller vessels in order to utilize the shallower Hudaydah port, increasing the overall cost per shipment. Compounding the increased expense is the fact that daily demurrage costs — the cost for not unloading a shipment within the agreed time — at the various ports are similar for both large and small vessels, ranging from US\$15,000-18,000 per day, according to a fuel importer who spoke with the author. The fuel importer stated that on average demurrage costs per ton of oil offloaded are almost three times more expensive at Hudaydah than Aden.

Al-Eisi also had the added incentive of preventing fuel importers from using the YPC storage facilities at Ras Issa marine terminal, to ramp up the pressure on YPC with whom he has an ongoing financial dispute.

Hudaydah

The rise of Houthi-affiliated fuel traders – who were previously unknown to members of the Yemeni business community but are now leading in terms of fuel imports via Hudaydah Port and domestic fuel market sales in the northwestern parts of the country under Houthi control – has been aided by a range of techniques designed to tilt the market in their favor. The following information is based on the insights of a number of sources that include a Yemeni fuel importer and a broker, as well as well-informed Yemen economic experts that have a number of contacts working in Yemen's fuel industry.^[115]

The first of these techniques reportedly involves the import of low-quality Iranian fuel. The fuel is transported via Oman and Dubai before reaching Hudaydah, where it is then distributed and sold on the local Yemeni market for a significant markup. The price of fuel is inflated further still, if, as has often been the case, the fuel is sold on the black market.^[116] The Houthis' control over the supply and demand of fuel that is being sold to territories under the group's control is a key factor behind the rise of Houthi-affiliated commercial merchants and their

[115] The author conducted interviews with these individuals from January-May 2018.

[116] 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>.

rising incomes. Because they control the supply of fuel, the Houthis and their allied businessmen are able to command higher prices; the local population is left with little option but to pay whatever price that the Houthis set.^[117]

Per the insights of one well-informed source, there have been instances where, if a fuel exporter, broker, and importer are all allied with the Houthis (at least at the time in which the deal is being drafted), the sale of fuel is used to divert money to the Houthis. Additional unloading fees are stipulated in the official paperwork, and the money intended for the exporter per the official paperwork is then redirected to the Houthis.^[118] A separate source has highlighted the important role that money exchangers play in this process. The fuel importer first pays the money technically owed to the fuel exporter via a money exchanger; once this transaction is completed, the exporter sends the money through a money exchanger to a Houthi affiliate. Both transactions may even occur through the same money exchanger.^[119]

Fuel traders who are not aligned with the Houthis face a range of techniques designed to dissuade them from competing with Houthi-allied merchants. Despite having previously worked with established fuel traders in order to learn the fuel trade and gain the benefit of their experience and networks, the Houthis have displayed a readiness to squeeze their former-allies-cum-competitors out of the market.^[120] One technique is to target those traders' assets, such as fuel transportation trucks and petrol stations owned by the trader.^[121]

Another reported technique used to bolster the Houthis and place non-Houthi competitors at a disadvantage is the insertion of hidden, additional costs that do not appear on the official paperwork drawn up when the initial agreement is made between the exporter, broker, and importer. These costs are said to include occasions in which the Houthis demand a hefty, last-minute fee to unload at Hudaydah Port that the (non-Houthi aligned) importer must pay. Refusal would consequently leave the importer and their fuel shipment stranded and facing expensive demurrage costs.

After fuel shipments are unloaded, non-Houthi traders face additional costs during the distribution of fuel: fees must be paid to Houthi

[117] Ibid.

[118] Researcher interviews with fuel broker, January and February 2018.

[119] Researcher interviews with fuel broker, January and February 2018.

[120] Researcher interviews with a Yemeni trader and a Yemeni fuel broker, February-May 2018.

[121] Researcher interviews with fuel broker, January and February 2018.

officials in any Houthi-controlled governorate and to any Houthi forces manning checkpoints that transportation trucks pass through from Hudaydah port to their destination.^[122] It is worth noting however that having to pay officials to ease the transportation of commercial goods and essential commodities is not unique to Houthi-controlled areas. As noted when discussing weapons flows earlier, the ease with which licit and illicit goods make their way across the country, including across active battlefronts, is an indication of a degree of cooperation between different actors. Judging by what is known about the tariffs that need to be paid to transfer items, it would appear that there is at least a tacit acceptance that if everyone's dues are paid then the goods can pass through untroubled.^[123]

The Houthis are also reportedly manipulating a banking system introduced in early 2017 in which fuel importers that are bringing fuel into Yemen via Hudaydah are supposed to deposit the Yemeni rials made from domestic fuel sales into CAC Bank (Sana'a) rather than going directly to the money exchangers and accessing foreign currency at any rate.^[124] The Houthis informed fuel importers that their money would be held in their respective CAC Bank accounts for up to ten days before it would be made available for withdrawal. It has been claimed that the Houthis are on occasion holding on to non-Houthi aligned fuel traders' money for much longer than ten days. The negative impact of preventing fuel importers timely access to the money they deposited may make it harder for the importer to pay their suppliers. It also raises the potential for depreciation of their earnings from market fluctuations and the devaluation of the Rial. By comparison, certain Houthi-affiliated merchants are reportedly refusing to deposit their money into CAC Bank (Sana'a) and continue to deal directly with money exchangers.^[125]

[122] Researcher conversation with a Yemen economic expert with a first-hand knowledge of the distribution of fuel and other commodities after being imported via Hudaydah port, June 2018.

[123] In addition to the formal entry points along Yemen's coastline and the internal customs checkpoints, there are several key passages that the majority of goods are known to pass through that are run by neutral tribal forces. These passages are located in Bayhan, Jarda, and Usaylan districts in northern Shabwa governorate and tribal areas in the south of Marib governorate, which shares a border with Shabwa. These passages meet in al-Bayda governorate, which is located in central Yemen and regarded as the gateway to Sana'a. It shares a border with several other governorates, including Shabwa and Marib in western and southwestern al-Bayda.

[124] Researcher interview with a Yemen economic expert who has years of experience working in Yemen's commercial banking sector, April 2018.

[125] Based on information provided by several sources with knowledge of and/or experience working in the Yemeni and international commercial banking spheres, CAC Bank in Sana'a is a key component of the Houthi economy that enables it to function. First, has reportedly CAC Bank Sana'a facilitated the transfer of the money being made by Houthi businessmen (on an individual as opposed to a collective basis) outside of Yemen to accounts held in the Bank of China and Abu Dhabi Islamic Bank. Second, CAC Bank is a key part of a financial system that also hinges on hawala networks that enables Houthi and non-Houthi commercial importers to get access to foreign currency. The access to foreign.

Gas

As reported by the Sana'a Center for Strategic Studies in “Yemen at the UN – March 2018 Review,” the domestic cooking gas shortages in Sana'a that began in February 2018 were sparked by the Houthi authorities' attempts to set a fixed price of YR 3,000 per gas cylinder, which in turn, lead to a surge in black market activity that saw the price of cooking gas soar in February and March.^[126] Cooking gas continued to be sold at inflated prices through April.^[127]

According to one well-informed source, the Houthis and relatively low-profile smugglers who are smuggling cooking gas from Marib to Sana'a are the ones reportedly profiting from this scheme.^[128] The same source added that the Houthis have more recently resorted to selling half-filled 25-liter gas cylinders for a price of YR3,300, meaning that consumers wishing to purchase a full 25 liters must buy two cylinders at a cost of YR6,600.^[129]

Lack of Accountability Over Government Spending

The alleged misuse and siphoning off of state revenues has been a recurring theme throughout the conflict and is an accusation leveled at many different actors. Although not the only actor accused of this, the internationally recognized government has been placed firmly under the spotlight due to a lack of transparency and accountability over the whereabouts and disbursement of currency shipments.^[130] In 2016, then-CBY Governor Monasser al-Quaiti ordered a total of YR400 billion in new banknotes, worth approximately US\$1.2 billion 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, YR2 billion was reportedly delivered straight to the presidential palace in the Masshiq

[126] “Yemen at the UN – March 2018 Review,” *Sana'a Center for Strategic Studies*, last modified April 7, 2018, accessed June 15, 2018, <http://sanaacenter.org/publications/yemen-at-the-un/5563>.

[127] “Yemen at the UN – April 2018 Review,” *Sana'a Center for Strategic Studies*, last modified May 9, 2018, accessed June 15, 2018, <http://sanaacenter.org/publications/yemen-at-the-un/5773>.

[128] Researcher interview, June 2018.

[129] Researcher interview, June 2018.

[130] 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.

area of Crater district, Aden.^[131] 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.”^[132]

If true, this diversion of Yemen’s local currency lends itself to criticism that the currency crisis is being manufactured in order to enriching a select few while limiting a regular citizen’s ability to buy food. Currency control, as a core responsibility of a Central Bank, is an extremely important asset in the hands of a kleptocratic regime. Once a kleptocratic regime takes root, all core functions of a state serve only one purpose: individual enrichment and the creation of a state-sanctioned reward mechanism beneficial to only those close to the facets of power.^[133]

There are also questions regarding the oil revenues that the internationally recognized Yemeni government has made from oil exports as a result of the stake it has in Masila oilfield in Hadramawt. The total revenue that the internationally recognized Yemeni government has generated from oil exports during the conflict is said to be in the region of US\$1 billion. The government pays both the Hadramawt Tribal Confederation (HTC) and the local oil company that runs Block 14, PetroMasila, for access to the field.^[134] It also pays the UAE-backed Hadramawt Elite Forces for access to the oil export facilities that are located in the coastal city of Mukalla.^[135] These payments are either made in cash, or in fuel provided to Mukalla for sale by the local government into the market.^[136] The more dubious part of this arrangement is what was happening for a period of time after the oil was exported to Glencore, an Anglo–Swiss commodity and mining company that is headquartered in Switzerland. The money received from Glencore was, until May 2018, reportedly being transferred directly to a private bank account held at AlAhli bank in Saudi Arabia under President Hadi’s name.^[137] The funds are now reportedly being deposited in a CBY account also in Saudi Arabia.^[138]

[131] Researcher interview with confidential source with close ties to CBY in Aden, June 2018

[132] Researcher interview with confidential source with close ties to CBY in Aden, June 2018

[133] Private conversation with a senior kleptocracy analyst currently working on Yemen war economy project, June 2018.

[134] Researcher interview with Yemen expert Peter Salisbury, March 5, 2018.

[135] Researcher interview with Yemen expert Peter Salisbury, March 5, 2018.

[136] Researcher interview with Yemen expert Peter Salisbury, March 5, 2018.

[137] https://www.agsiw.org/wp-content/uploads/2018/02/Salisbury_Yemen-Cratered-Economy_ONLINE-1.pdf

[138] Researcher interview with confidential source with close ties to CBY in Aden, June 2018.

Concerns over a lack of transparent finances among governing authorities in Yemen is not limited to the internationally recognized Yemeni government. It is a problem across the board. Moreover, the difficulty in evaluating to what extent this lack of transparency and accountability over local revenue and expenditure is a thinly veiled attempt to conceal corruption, is made all the more difficult by the different regional centers of power and actors involved. In Marib, for example, the CBY branch operates independently of the CBY in Aden and is unwilling to disclose the numbers behind its locally sourced revenues and expenditures.^[139] Other areas of uncertainty involve the customs revenue being generated from the different ports across Yemen, the Houthi-controlled inland customs checkpoints, and the Shahan and al-Wade'ah land borders with Oman and Saudi Arabia.^[140]

[139] Ibid. 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.

[140] 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.

RECOMMENDATIONS

Guiding Principle No. 1: Acknowledge Complexity

Anyone looking to curb corruption in Yemen undoubtedly faces an uphill task. Corrupt practices define Yemen's war economy and transcend Yemen's borders, extending to Saudi Arabia, the UAE, Oman and Iran. 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, the actors involved, and any overlapping political and economic interests. Continual observation and analysis is key to keeping pace with developments on the ground.^[141]

Rather than shying away from the time-consuming and frustrating task of disentangling the broad, ever-evolving, and complex relationships among the actors engaged in corrupt activity, policymakers must accept the need to understand such complexity. A well-developed contextual understanding will allow policymakers to weigh up potential benefits and anticipate pitfalls when developing an anti-corruption strategy. To understand what is currently occurring in Yemen and why, one must also be aware of the historical context and drivers of conflict.

Guiding Principle No. 2: Implement Gradually

Given the high levels of state capture and administrative corruption in Yemen, it would be unrealistic and perhaps counterproductive for policymakers to introduce a sudden and aggressive anti-corruption strategy. State capture should be rolled back gradually, with a phased implementation of anti-corruption reforms limiting the shock to the system.

An aggressive, impatient stance is inadvisable for three primary reasons. First, those currently profiting from the war economy may resist any wholesale changes that would subsequently result in a loss of their power or wealth. A delicate balance will be needed. Addressing the current forms of corruption will need the buy-in of actors who have previously made gains through violence and the abuse of power. At the same time, policymakers cannot overcompensate, as this would signal to others that violent and corrupt methods will continue to yield results and even be safeguarded in some form of political agreement.

[141] This white paper 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.

Second, it will inevitably take time to roll back forms of corruption that have become entrenched in Yemen. Corruption has shaped Yemen's political economy and infiltrated Yemeni society over the course of decades. Changing that simply will not happen overnight. However, if civil society organizations, local nongovernmental organizations (NGOs), and the local media are given support and space in which to operate, free of the threat of or actual use of violence, they can help to foster a change in mindset: that corruption is no longer "how things are done."

Third, an attempt to combat corruption in a rushed or superficial manner 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 already face the world's worst humanitarian crisis. For example, one option for limiting the Houthis' illicit practice of importing cheap fuel to sell on the black market is to place a blanket ban on Hudaydah Port. However, this may prompt the Houthis to refuse to allow through its checkpoints any fuel imported via non-Houthi-controlled ports; the result would be that the broader population in Houthi-controlled areas, which are the most densely populated areas in the country, would be denied the fuel supplies that they need.

Another example involves the dangers of clamping down too 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-detering measures.

Guiding Principle No. 3: Engage as Many Actors as Possible

Corruption in Yemen, both historically and in the present day, is systemic. No single individual or group is solely responsible for the high levels of state capture and administrative corruption. Networks of corruption extend throughout Yemen, across frontlines, and over borders. In these networks, supposed adversaries cooperate for the sake of private gain.

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. In reality, there are some who are in a better position than others to exploit Yemen's main resources. For example, members of governing authorities are able to influence who imports what, where, and at what cost; military and security commanders on Saudi payrolls receive direct financial backing from regional powers. Given Yemen's history, however, there are likely to be onlookers waiting to improve their own position and reap financial benefits by replacing those currently in charge.

If there is any breakthrough to be made in creating short- or long-term peace, policymakers will need the buy-in of as many actors as possible. A failure to obtain this buy-in will leave unchanged Yemen's political economy of war. This is likely to keep intact a pattern of recurring conflict.

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. This will help to create transparency in the post-war reconstruction process. If the anti-corruption agencies play a role in preventing corruption during the post-war reconstruction phase, this may set a positive precedent and build a more effective anti-corruption system in the long term.

- Encourage greater coordination and data-sharing among already established anti-corruption agencies. For example, the Real Estate Authority could share information with FIA and COCA, etc.
- Ensure that all anti-corruption agencies operate independently of government officials. COCA, for example, is viewed as being closely aligned with the Yemeni president. The Ministry of Finance has also in the past restricted COCA's access to resources and thus prevented COCA from operating effectively.

Encourage Transparency and Accountability

- Conduct a recurring, independent internal audit for all state-owned and state-run companies.
- Establish a new government agency tasked with processing freedom of information requests made by members of the public, civil society organizations, and the media, in accordance with Law No. 13 of 2012 concerning the Right of Access to Information.
- Create and enforce a new regulation whereby appointed officials publicly release personal financial statements: one at the time of their appointment, one each year during their tenure, and a final statement upon leaving the position.
- Make public the details of all government tenders. During the bidding process, the details of each respective company's bid should be made public. Once a final agreement is reached, the terms and agreements of the contract should be published.
- Make public all company information for public and private companies: registration documents, proof of ownership, number of employees, revenues and expenditures.
- Make public the details of the salaries and bonuses of all senior government staff.
- Ban personal relationships between the government official responsible for the tender and the company awarded the contract.
- Establish a system issuing national identification numbers to Yemeni citizens upon reaching 16 years of age and to non-Yemeni residents 16 years old and above who have secured a residency visa. Link the national identification number to personal information and biometric data stored on a secure and confidential government database. The system should track individuals' financial transactions such as payments for public and private services (including utility bills or internet usage). All public sector employees — including military and security personnel — should receive their salaries in their own designated account in the Public Authority Office or in a commercial bank of the government's choosing. This system will help to decrease the incidence of ghost soldiers and double dippers, and thereby bring transparency to government revenue and defense budgets.

Reduce Conflicts of Interest

- Legally obligate individuals who are to be employed by the government (e.g. as members of the government, civil servants, or military officers) to relinquish control of and otherwise dissociate themselves from any private businesses.
- Establish a system whereby positions that are central to economic control and management (for instance, positions in state-run energy companies such as Yemen Petroleum Company or Aden Refinery Company) rotate on a mandatory and periodic basis.
- Implement new regulations concerning equal employment opportunities within the public sector. For government positions, an open application process should begin by publicly announcing via local media the job vacancy. The selection of the workforce should be based solely on skills and merit; no direct political, familial, or tribal ties should play a role in this selection process. If any employee is found to have been hired outside the scope of the equal employment opportunity regulations, this appointment should be deemed null and void, with the employee immediately fired and legal action taken against those responsible for hiring them.
- Ban the issuing of state-run contracts to senior military commanders.
- Officially register and publish all government assets, including weapons inventories.
- Gradually dismantle checkpoints to reduce the incidence of bribes.
- Reform and gradually downsize the military and security apparatus. Manage the transition with military commanders who may oppose to reform. Bring different military and security actors under one command structure, with clear transparency over the number of fighters per brigade/local security force in addition to information on salaries. Integrate representatives from all different warring parties into Yemen's national armed and security forces, under the oversight of the ministries of interior and defence.

Improve the Management of Government Finances

- Establish a strong automated budgetary system for collecting government receipts. Introduce tax reforms designed to prevent tax evasion. Construct a rigorous system to control the disbursement of money to the different branches of government and state institutions. The ease with which actors can exploit state institutions and resources for corrupt activities partly stems from poor finance management, weak budget monitoring and procurement processes, and an ineffective integrated financial management information system (IFMIS) – the outcome of which is the misuse of public spending and revenue collection.

- Implement a new national budget. The budget should have a clear breakdown of financial details: revenue, expenditures, debt, etc. The details of this budget should be made available for public scrutiny.
- Ensure tight budgetary controls and supervision over government revenues and expenditures. Make the government legally obliged to release regular financial statements in accordance to agreed-upon deadlines.
- Make CBY fully independent. Give it control of the national budget and, by extension, government expenditure. Neither the prime minister nor any other government official should be authorized to spend money that is not appropriately allocated in the 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.
- Draft, deliver, and monitor implementation of a long-term financial assistance package. Make the continued delivery of assistance conditional on the promotion of and continued adherence to existing anti-corruption legislation. Channel donations through local government institutions (e.g. local councils), local NGOS or international NGOs on the ground in Yemen.
- Closely monitor financial assistance provided for post-war reconstruction and local development projects. Make such assistance conditional upon progress toward stated outcomes. If any deviations or corrupt activities are detected, temporarily suspend funding until the situation is investigated and a verdict reached. Channel donations through local government institutions (e.g. local councils), local NGOS or international NGOs on the ground in Yemen. If deeply entrenched corruption in Yemen is to decrease, international donors must be prepared to offer high levels of long-term commitment and funding to assist Yemen's transition away from a rent-based economy.

Decentralize Economic Power

- Transfer authority away from centralized ministries in the Houthi-controlled and the internationally recognized Yemeni governments, respectively, to local government entities dealing with vital economic resources. Empower local authorities, specifically local councils, to deliver public services and implement local development projects. Devolving authority may diffuse the economic power of the elite minority who, as things stand now, can put considerable pressure on anyone who accuses them of corruption.

- Aid the creation and expansion of small and medium-sized enterprises (SMEs) to facilitate economic diversification and economic growth. Diversifying the Yemeni economy may remove one of Yemen's major sources of wealth concentration and, by extension, corruption. Creating space for SMEs in the economy may also empower SMEs to act together as a lobby group keeping other larger actors in check.
- 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.

CONCLUSION

The violence and increasing fragmentation in Yemen has presented an opportunity to a number of actors to exploit their position of authority for private gain. The main sources of patronage and power — control over state institutions and access to major sources of revenue — remain unchanged from before the war. The mechanisms of corruption established during the Saleh era continue to operate. Weapons flows, tendering processes, fuel subsidies and falsified military payrolls continue to enrich the few at the expense of the many.

However, while the basic functioning of corruption has not changed much since the war began, Yemen is witnessing a shift in the individuals involved. Patronage networks have become significantly more complicated. Sectors traditionally dominated by a well-established elite minority have had to make room for new, previously marginal or unknown figures making inroads into traditional and novel means of illicit profit. The fragmentation and regionalization of the country have resulted in parallel state institutions, meaning new and different forms of state capture. The entrance of two wealthy regional patrons — Saudi Arabia and the United Arab Emirates — has changed the calculus of wealth. The reported collusion between Houthi-affiliated importers and senior officials allied with the internationally recognized Yemeni government, if true, represents an instance where adversaries at war cooperate at the highest levels for purposes of private gain. Patronage networks in Yemen now extend to previously marginalized parts of Yemen, transcend Yemen's national borders, and cross the frontlines of the war itself.

Among those profiting from the ongoing conflict, little incentive exists to build peace. These actors have a vested economic interest in continued fighting and instability. They could well act as spoilers to any attempt to secure a political settlement to the conflict. Meanwhile, Yemen's humanitarian and economic crises deepen further still. 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 be guided by three basic principles. First, policymakers must acknowledge and, to the greatest extent possible, understand the complex configuration of patronage networks in Yemen. Second, the anti-corruption agenda must be introduced gradually. Third, policymakers must seek 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, reducing conflicts of interest, or improving the management of government finances — will likely founder. Corruption has become deeply and widely entrenched in Yemen; any post-conflict anti-corruption agenda must therefore be great in scope and long-term in vision.

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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, 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 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.

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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.

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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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