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# Promoting peace in Yemen through the economy

A survey of local economic potential

March 2020

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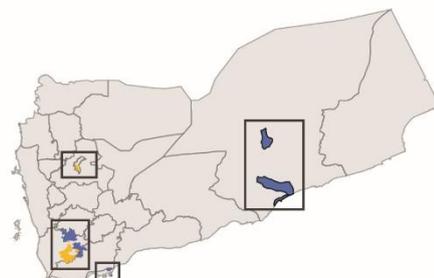
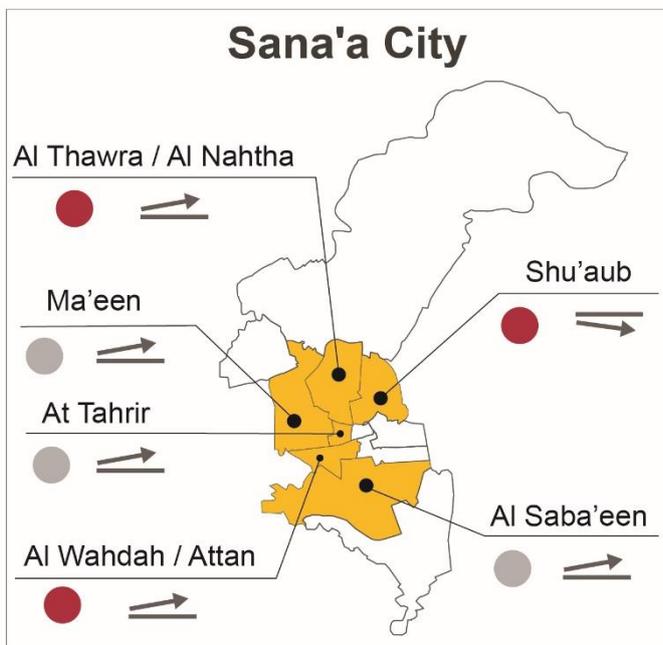
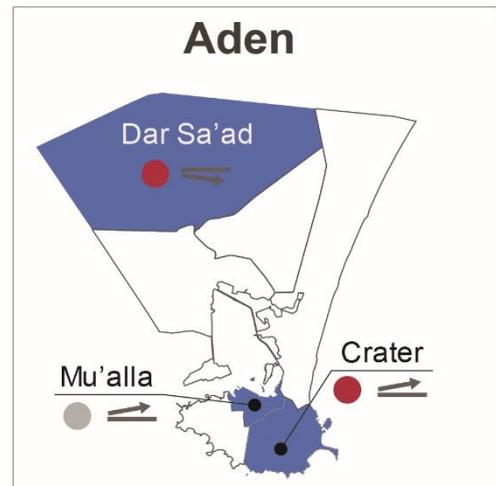
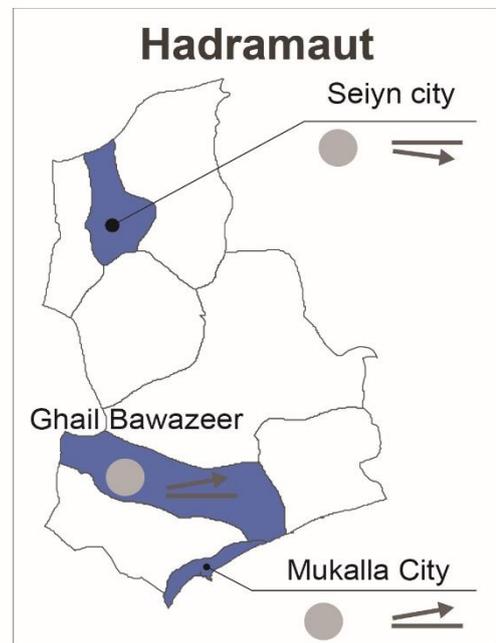
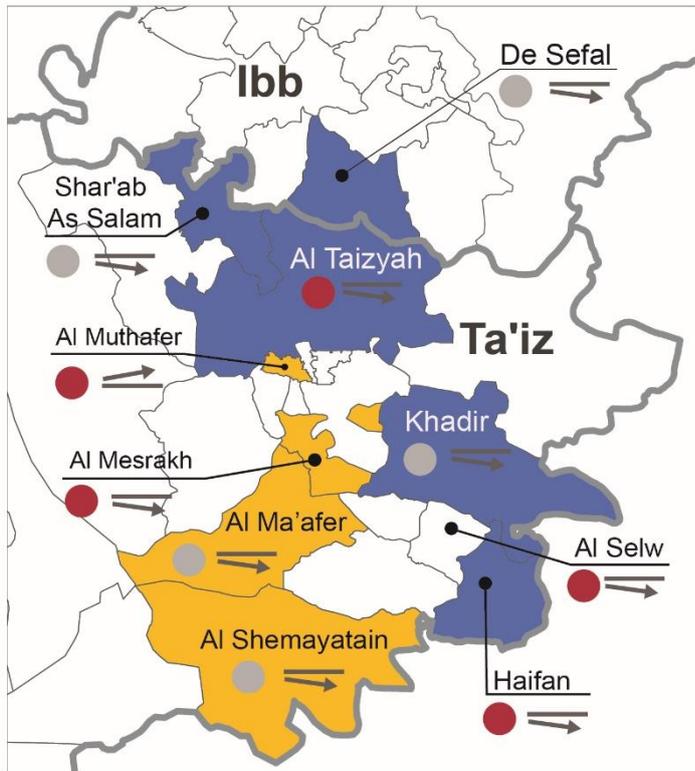
The project is conducted under the umbrella of the GIZ-implemented programme 'Peace Process Support for Yemen: Improving the capacities for non-violent conflict resolution in Yemen', funded by the German Federal Ministry for Economic Cooperation and Development (BMZ) and the European Union (EU).

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# Map of research areas



## Legend

	Governorates boarder		High violence contexts (47.94% - 384 HH)
	Districts boarder		Low violence contexts (52.05% - 417 HH)
	Internationally Recognised Government		More developed (49.68% - 398 HH)
	De facto authorities		Under developed (50.31% - 403 HH)

GIZ-implemented programme 'Peace Process Support for Yemen: Improving the capacities for non-violent conflict resolution in Yemen', funded by the German Federal Ministry for Economic Cooperation and Development (BMZ) and the European Union (EU). Research by Center for Peace and Conflict Studies (CPCS) at Seton Hall University's School of Diplomacy and International Relations and a Yemeni specialised research centre.

# Acronyms and terminology

## Acronyms

<b>Dfa</b>	–	De facto authorities (Sana'a based)
<b>IDP</b>	–	Internally displaced person
<b>IRG</b>	–	Internationally Recognised Government (Aden based)
<b>KSA</b>	–	Kingdom of Saudi Arabia
<b>STC</b>	–	Southern Transitional Council
<b>UAE</b>	–	United Arab Emirates
<b>YER</b>	–	Yemeni Rial

## Terminology

**Local councils/local authorities** – encompasses the range of local authority bodies below the governorate level, including the district level director general, elected local council, district administration and sub-districts. Does not refer to the governorate level local council.

**Military, military/security forces** – encompasses the national army, Dfa forces, STC-aligned armed groups or other independent armed groups.

**International organisations** – encompasses both international non-governmental organisations and United Nations agencies, as Yemenis do not differentiate between them.

**Black market is used** – signifies market activity that falls outside regulatory frameworks, or when Yemenis are required to make additional payments or bribes on top of formal charges.

**Functioning market** – signifies market activity that may fall outside internationally recognised regulatory frameworks but is essential for Yemenis' livelihoods and resilience.

**Dfa and IRG areas** – refers to the territory under the control of the political authorities and aligned actors at the time of research.

**North and South** – when used refers to the historical territories of the previously separate countries, the People's Democratic Republic of Yemen (South Yemen) and the Yemen Arab Republic (North Yemen). This is a distinct categorisation from Dfa and IRG areas.

**Legitimacy** – refers to the degree to which political authorities and other actors are viewed by Yemenis as being relevant on the ground or able to exercise power, rather than having legal or democratic legitimacy, or having citizens' trust. This form of legitimacy is measured by an ability to deliver salaries, security and services, including humanitarian aid.

# Executive summary

**Economic activities in Yemen** have adapted to reflect the nature of the protracted conflict, creating new hardships, but also new winners, opportunities and interests. This report investigates how this shift may fuel conflict dynamics, as well as the economic measures that could build confidence and peace across divides.

## An economy divided by opportunity and necessity

Yemenis are divided by opportunity and necessity, according to whether they reside in internationally recognised government (IRG) or de facto authorities (Dfa) areas. Those in Dfa areas are more likely to be struggling economically, to have changed their source of income and to rely on the black or functioning markets. Importantly, there are greater economic incentives in Dfa areas for perpetuation of the conflict.

- **Yemenis in Dfa areas rely on irregular work, in IRG areas on security work:** 43% of Dfa households have changed income sources, with the main shift to irregular work; 29% of IRG households have changed income, mainly towards security employment, which is believed to provide the best opportunities for young men.
- **Importance of the black and functioning markets, especially in Dfa areas:** Both (1) black market activities, signified by high rents, exploitation and corruption (such as for cooking gas), and (2) the functioning market, which provides essential services (such as money exchanges) dominate the economy, especially in Dfa areas.
- **Black and functioning market activity are the most profitable:** The most profitable types of economic activity all reside in the black and functioning markets: informal gas supply, informal fuel supply, money exchange and the electrical grid. Other notable profitable sectors include construction and transportation.
- **Vested economic interests in Dfa areas:** 69% of households in Dfa areas believe that business interests are driving the war and must be dealt with first in order to facilitate a sustainable peace, compared to 18% in IRG areas.

## Moving from economic coping to survival

Economic insecurity is as important for Yemenis as physical insecurity, especially given their struggle to purchase food. Yemenis have coped with economic hardship by consuming their savings and selling their possessions. However, many have moved to survival mode, with a large proportion reliant on food aid, or deciding to move to other areas in search of incomes.

- **Economic insecurity is as relevant as physical insecurity:** Those residing in Dfa areas are more concerned with physical insecurity, while those in IRG areas are more concerned with gaining an income and services. For example, 37% of IRG respondents state that a

drop in income is a threat, compared to 22% in Dfa areas. This is because Dfa residents face greater physical threats, not because their economic situation is more secure than that of IRG residents.

- **Yemenis spend most on food:** The largest economic burden facing families is food purchases, with the average family spending 85,558 Yemeni Rial (YER, equivalent to US\$153)<sup>1</sup> a month on food, followed by housing (21,403 YER/\$38 per month).
- **Escalation from economic coping to survival:** 62% of all Yemeni households have been forced to sell personal possessions to cope. Having sold possessions, Yemenis are reliant on aid to survive, with 58% of households receiving monthly food aid.
- **Displacement for economic reasons, primarily in Dfa areas:** Yemeni Internally Displaced Persons (IDPs) are split between those who fled fighting and threats (33%) and those moved because they are struggling to 'get by' (24%) or in search of work (19%). IDPs in Dfa areas are more likely to have moved for economic reasons.

## Rent seeking by the Dfa and by IRG armed groups

The Dfa has established a collective extraction model for personal gain and to fund the war effort. The IRG does not have the same model but is instead suffering from high levels of corruption. Security forces are stepping into the gap left by the IRG and are starting to interfere in the economy in IRG areas. Lack of options to earn money is the main reason for young men to fight.

- **Dfa is exerting most influence in the economy:** The Dfa is most successful at controlling businesses: 72% of Dfa Yemenis think that businesses in their area are controlled by Dfa, while only 11% of IRG Yemenis think the same about the IRG. Local councils (54%) and governorates (46%) play a similar role in IRG areas.
- **Dfa has established a collective extraction model:** Dfa's model entails: (1) direct takeover of profitable enterprises; (2) creation of monopolies under its control or regulatory demands against competitors; and (3) rent via internal customs and irregular taxes.
- **Individual political corruption and security group interference in IRG areas:** The IRG is beset by individual corruption, not systemic rent to fuel the war. Security groups are benefiting from the resultant 'regulatory space' to earn rent in IRG areas.
- **Earning income is the primary incentive for joining the fight:** This is especially the case in IRG areas, with 56% of IRG respondents stating the lack of opportunities drive men to join, compared to 30% in Dfa areas.

## Failure to gain legitimacy by economic means

No institutions have a positive trust rating among the Yemeni public, with only local security forces and local government receiving a neutral rating and only in IRG areas only. Dfa control of economic resources is not translating to investments in community needs to build its public legitimacy. International organisations, tribal groups and local authorities have the greatest legitimacy.

- **Trust is absent, except for in security forces and local authorities in IRG areas:** No Yemeni actor is trusted by the public to improve Yemen's future. Security forces have the highest trust rating, with a mean response of slightly above 'neutral', but only in IRG areas.

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<sup>1</sup> Exchange rate used as of January 2020: [https://ec.europa.eu/info/funding-tenders/how-eu-funding-works/information-contractors-and-beneficiaries/exchange-rate-infoneuro\\_en](https://ec.europa.eu/info/funding-tenders/how-eu-funding-works/information-contractors-and-beneficiaries/exchange-rate-infoneuro_en)

- **Economic resources have not been used to reinforce public legitimacy:** The Dfa have used accumulated wealth for personal gain or war purposes, they have not yet used it to enhance their public legitimacy by building or maintaining services that benefit the broader public. The IRG has also made no progress in persuading Yemenis that it is willing and able to deliver critical services.
- **International organisations are winning legitimacy:** International organisations are winning legitimacy (but not necessarily trust) by delivering critical services, especially in IRG-controlled areas. Some 70% of Yemenis believe that relationships with international organisation workers is critical for accessing income and food.
- **Tribal leaders are relevant nationally, as are local authorities in IRG areas:** Tribal leaders are seen to play a consistent role in delivering security and in providing services. This gives them a unique level of national legitimacy. Local authorities are believed to be relevant for services delivered in IRG areas.

## Movement, practical initiatives and business networks

Impediments to movement prevent Yemenis getting to school, work and the market, as well as affecting businesses. Confidence can be built by reducing such impediments. Half of Yemenis do not maintain relationships across the conflict divide, but are supportive of peace initiatives, especially if practical. Businesses are uniquely placed to enable such initiatives.

- **Movement is a critical need for Yemenis families:** Combined with poor public transport, a proliferation of checkpoints and regular security incidents, poor roads regularly prevent Yemenis from going to school (48% experience restrictions monthly), buying critical goods (48%) and getting to work (47%).
- **Movement is also critical for businesses:** Movement restrictions are also making it more difficult for businesses to transport goods, increasing their costs and resulting in more expensive consumer products for Yemenis.
- **Limited cross-divide interaction, but support for practical initiatives:** Over 50% of Yemenis do not maintain relationships across conflict divides. Yemenis are still supportive of cross-divide initiatives, especially if practical. Initiatives to protect human rights or deliver services have the highest level of support.
- **Businesses are uniquely placed to promote peace locally:** Businesses maintain a unique web of relationships with political actors, local councils, communities and armed groups. Further, they have a track record of assisting local initiatives to reduce conflict and enhance resilience.

## Recommendations for economic peacebuilding

- **Reinforce local crisis management through business networking:** Tap into businesses' existing relationships to by supporting networking between businesses, local councils, tribal leaders, civil society and military actors. This also requires mapping of local political economies, the figures influential in them and their interests.
- **Reinforce functioning local markets:** Local networks should be supported to develop plans for how to reinforce functioning local markets, including measures to: (1) protect businesspersons and their assets; (2) enhance transparency on taxation and public oversight; and (3) fund shared businesses across conflict divides.

- **Focus on movement through sub-national dialogues:** Freedom of movement is critical for resilience and confidence in the other. Establish sub-national dialogues that focus on how freedom of movement can be expanded, especially to enable economic activities that build confidence.
- **Intervene to reduce transport fees:** Look at how transportation fees might be reduced through existing projects. For example, existing work to support local governments to collect revenue could be used to challenge the taxation of transport by governorates and local councils.
- **Develop channels of engagement with the Dfa and IRG security groups:** Progress in promoting peace through the economy requires the involvement of the Dfa and IRG security groups. This requires a strategy that does not breach political red lines.

# 1 Introduction

**The protracted conflict in Yemen** has intertwined with a deepening economic crisis; manifest in a reduction of the country's industry and agricultural infrastructure, a substantial proportion of Yemenis losing their jobs in the private sector, devaluation of the Yemeni currency, insufficient liquidity for government agencies to consistently pay public sector workers and a drop in livelihoods that has meant many Yemenis cannot afford basic food items. However, economic activities have not ceased, but have adapted to reflect the nature and needs of the crisis, with some benefiting from economic opportunities that did not exist before the violence. Importantly, this shift in economic activity represents both a threat to sustainable peace – for example, as war is conducted through economic means – and an opportunity, as economic activities have the potential to drive interaction and cooperation across divides. This report looks to understand both the societal costs and potential opportunities provided by this shift in economic activities. It then uses this understanding to identify measures that could be taken in the economic sphere to build confidence across divides and promote peace.

This research was conducted jointly by a Yemeni specialised research centre and the Center for Peace and Conflict Studies at the School of Diplomacy and International Relations, Seton Hall University. The project was conducted under the umbrella of the GIZ-implemented programme 'Peace Process Support for Yemen: Improving the capacities for non-violent conflict resolution in Yemen', funded by the German Federal Ministry for Economic Cooperation and Development (BMZ) and the European Union (EU).

## 1.1 The relationship between conflict and economy<sup>2</sup>

Violent conflict does not erase economic activity in affected countries and societies. Instead, violent conflict can change everything about an economy: who has influence, who is vulnerable, what is valuable, and how basic economic decisions are made. At the same time, economic activity in or near areas experiencing violent conflict influences the decision-making of those participating in the conflict, both at the political and the local levels. This can include greater willingness or reluctance to participate in political negotiations (or other peace processes) and the likelihood of participating in or promoting violence. This means that when planning for both economic development and peace promotion in conflict contexts we need to answer two fundamental questions.

- 1 How does the development of violent conflict dynamics influence individual and group decisions in the economic sphere? This question requires insight into the new economic opportunities stemming from the war, the economic hardships that have emerged, and the interests and power groups that exist because of these opportunities and hardships.
- 2 How do changes in the economic sphere influence the decisions of individuals and groups regarding the conflict? This question requires insight into the impact of the economy on the willingness of political groups in conflict to participate constructively within negotiations –

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<sup>2</sup> This section draws from the CPCS's Research and Policy Guide 'War economies and peace promotion', August 2019.

both because of their own interests or because of pressure put on them by other interest groups. It also entails understanding of the economic activities ‘connecting’ or ‘dividing’ social groups – i.e. is the economy pulling people together or pushing them apart.

Understanding this relationship between conflict dynamics and economic activities is especially important in protracted social conflicts<sup>3</sup> – distinguished by long-term social divisions, a history of competition between social groups for control of state institutions and economic opportunities, and symbiotic relationships between local community groups, national political groups and external third parties. To help answer these questions, the research team developed a methodology that organises economic behaviour during conflict into four categories:<sup>4</sup>

- **Opportunity behaviour:** This includes the new opportunities that have developed because of the conflict, and the actions taken by individuals and groups to benefit from them.
- **Coping behaviour:** Consists of the economic decisions people make to manage their needs during conflict. It can be divided into coping – maintaining assets but not building wealth – and surviving – selling off assets in order to have the means to live.
- **Combat behaviour:** This encompasses the production, mobilisation and allocation of resources to sustain fighting. As a conflict becomes more protracted, there is an escalation in such actions to the detriment of civilian economic activity.
- **Legitimacy behaviour:** When two or more groups compete to be recognised as the legitimate government of a society, they also compete both to regulate economic activity and to gain public support by association with the distribution of economic benefits. This report focuses on three important ways in which competing authorities can try to establish legitimacy by economic means: salaries, or the availability of jobs; security, meaning protection from violence; and services, meaning access to healthcare, education, and aid.

## 1.2 Methodology and sampling

In line with this approach, the research team used household surveys, focus group discussions and individual interviews to measure public perceptions of economy and conflict issues.

This study used a stratified sample to recruit 801 household respondents. The sample was organised to represent three variables: authority, who controls the ground, whether the de facto authorities (Dfa) or internationally-recognised government (IRG); levels of development (distinguishing between more economically developed areas and those that are underdeveloped); and levels of violence (those living in places where violence take place compared to those further from the front lines). Each sampling area was placed into one of these categories according to expert opinion from the Yemeni specialised research centre.

When the report refers to ‘Southern Transitional Council (STC) areas’, it means those areas surveyed which demonstrate a greater degree of support for the STC. This encompasses Dar Sa’ad, Crater and Mu’alla in Aden Governorate, and Ghail Bawazeer, Mukalla and Seiyin in Hadramout Governorate. The total respondents from these areas is 197. This sample is used as a proxy for understanding the perspectives of those who might be more supportive of the STC and southern independence generally.

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<sup>3</sup> Edward Azar, *The Management of Protracted Social Conflict: Theory and Cases* (Aldershot: Dartmouth, 1990).

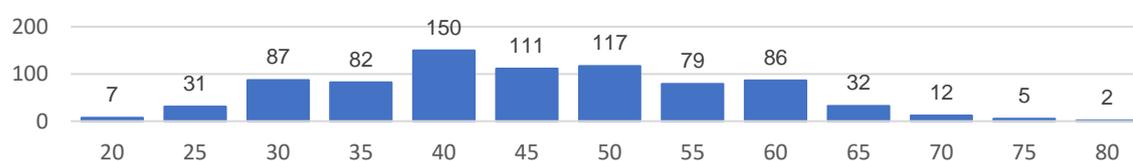
<sup>4</sup> This categorisation draws on Goodhand’s analysis of the war economy in Afghanistan. Jonathan Goodhand, 2004, ‘From War Economy to Peace Economy? Reconstruction and State Building in Afghanistan,’ *Journal of International Affairs* 58(1).

	More developed		Underdeveloped	
	High-violence contexts	Low-violence contexts	High-violence contexts	Low-violence contexts
Internationally recognised government (IRG)	<b>Group 1a</b> 12.73% (102)	<b>Group 1b</b> 12.73% (102)	<b>Group 1c</b> 11.49% (92)	<b>Group 1d</b> 12.98% (104)
	Crater (Aden) Al Muthafer (Taiz)	Mu'alla (Aden) Mukalla City (Hadramout) Ghail Bawazeer (Hadramout)	Dar Sa'ad (Aden) Al Mesrakh (Taiz) Al Selw (Taiz)	Seiyn city (Hadramout) Al Ma'afer (Taiz) Al Shemayatain (Taiz)
De facto authorities (Dfa)	<b>Group 2a</b> 10.24% (82)	<b>Group 2b</b> 13.98% (112)	<b>Group 2c</b> 13.48% (108)	<b>Group 2d</b> 12.36% (99)
	Al Thawra / Al Nahtha (Sana'a) Al Wahdah / Attan (Sana'a)	Ma'een (Sana'a) Al Saba'een (Sana'a) At Tahrir (Sana'a)	Haifan (Taiz) Al Taizyah (Taiz) Shu'aub (Sana'a)	De Sefal (Ibb) Khadir (Taiz) Shar'ab Al Salam (Taiz)

Within each sample site, the study randomised responses using a systematic sampling method. Enumerators started at the town or city centre for selected areas and then approached every  $n^{\text{th}}$  house, asking to speak to the head of household. In total, 877 households were approached in August to September 2019, of which 76 (or 8.7%) refused to participate. In this difficult research conflict, a 91.3% response rate is high. Our final sample of 801 has a margin of error of 3.46%.<sup>5</sup>

This method yielded a sample that is representative at the household level, but not at the individual level. For example, there is a marked gender disparity in the sample: 77% of respondents were men, 23% women. Furthermore, gender participation varies across subsamples: 34 out of 104 respondents in group 1d were women, and only 1 of 99 in 2d was a woman. Women in the sample methodology are self-identified as the heads of their households. This may mean that their perspectives are more indicative of women in business or more influential positions, rather than women overall. The mean age of respondents is 43.8 years and the mean household size is 6.9 persons. There were no significant disparities across the three variables for respondent age or household size. Analysis for gender, age and household size was conducted at the national level, rather than for the three main variables. This is because the sampling size is too small for statistically relevant results below the national level.

Graph 1: National age distribution (frequency)



Heads of household represented all education levels, from illiterate to holding graduate degrees. For example, 106 respondents claimed a rudimentary ability to read and write, while 146 respondents have passed through secondary education. However, the findings are skewed towards those from a higher education background, with 226 of participants holding a bachelor's degree; and the end results are weighted for this bias.

<sup>5</sup> Assuming a nationwide population of 28 million. Because our sample is randomised at the lower but not the higher level, this margin of error is an underestimate.

18% of all respondents were displaced from their home. Displaced respondents were greater in de facto areas, accounting for almost a quarter (23%) of all respondents there, compared to 13% in IRG areas.

Category	IRG	Dfa	National
<b>Mean respondent age</b>	43.5	44	43.8
<b>Mean household size</b>	7.4	6.5	6.9
<b>Household condition</b>			
Good condition	71	119	190
Reasonable condition	246	223	469
Derelict/unrepaired	83	59	142
<b>Gender</b>			
Male	277	338	615
Female	123	63	186
<b>Marital status</b>			
Married	315	346	661
Divorced	17	9	26
Separated	11	5	16
Single	25	30	55
Widowed	32	11	43
<b>Education level</b>			
Illiterate	28	15	43
Able to read and write	57	49	106
Primary education	56	41	97
Secondary education	76	72	148
Diploma (2–3 years)	71	70	141
Bachelor's degree	93	133	226
Master's degree	14	15	29
PhD/other tertiary education	5	6	11
<b>Internally displaced persons (IDPs)<sup>6</sup></b>	53	92	145

The household survey was supported by eight focus group discussions in November-December 2019: (1) Mu'alla (Aden, IRG), young people up to the age of 33; (2) Mukalla (Hadramaut, IRG), business persons; (3) Al Muthafer (Taiz, IRG), higher education level; (4) Al Selw (Taiz, IRG), lower education level; (5) Khadir (Taiz, Dfa), lower education levels; (6) Shu'aub (Sana'a Dfa), young people up to the age of 40; (7) Ma'een (Sana'a, Dfa), business persons; and (8) Al Thawra (Sana'a, Dfa), more educated. 72 persons were involved in the focus groups: 54 men and 18 women.

In parallel to the focus group discussions, 15 interviews were conducted, nine in Dfa areas and six in IRG areas. Interviews encompassed businesspersons, public administrators, academics and security officials. In addition, after the end of the research, ten validation interviews were conducted with international experts on peace and conflict issues in Yemen in the period January-March 2020, including representatives from multilateral, diplomatic and non-government institutions. No information is provided on the focus group participants, the in-country interviewees or the validations interviewees. This is done for personal security reasons. References to information provided in: (1) focus groups discussions are restricted to the location of the discussion (and do not include age, occupation or gender); and (2) interviews are restricted to whether the interview was conducted in IRG areas, Dfa areas or internationally.

<sup>6</sup> In this study, IDPs are considered to encompass those who have moved both for economic reasons, and because they are fleeing violence.

# 2 Opportunities in conflict

**This section explores the shift in** the economic behaviour of Yemenis in response to the changes in opportunities that have arisen with the conflict. What new opportunities exist? How are opportunities evolving in different parts of the country? How are these opportunities informing the Yemenis' coping strategies? How are these opportunities influenced by the conflict? How are these opportunities influencing Yemenis' decisions on the conflict?

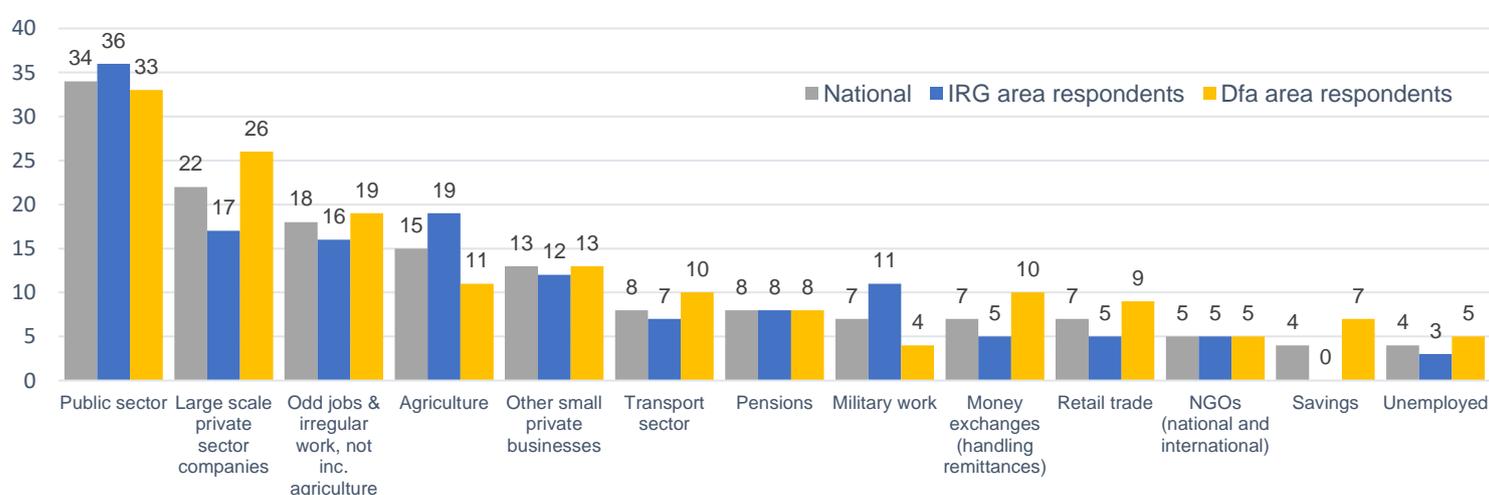
Yemenis are divided by opportunity and necessity, according to whether they reside in IRG or Dfa areas. Those in Dfa areas are more likely to be struggling economically, to have changed their source of income and to rely on the black or functioning markets. Importantly, there are greater economic incentives in Dfa areas for perpetuation of the conflict.

- **Yemenis in Dfa areas rely on irregular work, in IRG areas on security work:** More Dfa households have changed their source of income since August 2015 (43%) than in IRG areas (29%). Most of this change is from the public sector, to irregular work. In IRG areas, the change has been to security employment, and this looks likely to continue: 61% of Yemenis in IRG areas think that the best avenue for young family members to find work is in security forces.
- **Importance of the black and functioning markets, especially in Dfa areas:** It is important to distinguish between: (1) black market activities, signified by high rents, exploitation and corruption (such as for cooking gas); and (2) the functioning market, which falls outside internationally recognised regulatory frameworks, but provides essential services (such as money exchanges). Black and functioning markets dominate for cooking gas, fuel and money exchanges. This dominance is especially pronounced in Dfa areas.
- **The black and functioning markets are home to the most profitable Yemeni businesses:** The most profitable types of economic activity all reside in the black and functioning markets, including informal gas supply, informal fuel supply, money exchange and the electrical grid. Other notable profitable sectors include construction, and transportation. The former as a place to invest money due to a lack of trust in the banking system. The latter because of the challenges in moving in the country, and hence greater public willingness to pay high costs to be supported to move.
- **Vested economic interests in Dfa areas:** 69% of households in Dfa areas believe that business interests are driving the war and must be dealt with first to facilitate peace, compared to 18% in IRG areas. The findings correlate with the importance of the black and functioning markets in Dfa areas and the control over businesses exerted by the Dfa in the areas it controls (section 4). This would suggest that peace is not achievable without demonstrating that the same or greater economic opportunities would exist after a peaceful settlement.

## 2.1 Diversity of income between Dfa and IRG areas

The public sector is the biggest source of income in Yemen, with 34% of households relying to some degree on public sector salaries.<sup>7</sup> The other most prevalent sources of household income are large-scale private sector companies (22% of households) odd jobs and irregular work (18%) agriculture (15%) or other small private businesses (13%). Less prevalent sources of income are pensions and transportation services (both 8%) security work, work in money exchanges and the retail trade (all 7%) and non-governmental organisations (5%, includes both national and international). Only 4% of households said that they do not have a source of income with their breadwinners unemployed. For the purposes of this study, 'security forces' and 'security employment' is taken to encompass the national army, Dfa forces, STC-aligned armed groups and other independent armed groups.

Graph 2: Main form of household income (%)



It is important to note that the survey did not explore the relative importance of remittances as a source of income, as opposed to money earned in country. For the purposes of this survey, each household respondent was asked to identify his/her family's main source of income, irrespective of whether the main breadwinner works in Yemen or internationally. For example, a family whose breadwinner works in the Kingdom of Saudi Arabi (KSA) as a bus driver, would have selected 'Transport sector' as their main source of income. The survey demonstrates that 7% of Yemeni households are reliant on money exchanges for income. This means that they have family members who work in the money exchange sector and earn an income from this work, rather than representing the proportion of families that receive their money through remittances sent by family members working overseas. Remittances through the regulated market contribute between three and four billion US\$ per annum to Yemen's economy, with roughly 10% of households dependent on them for income.<sup>8</sup> This expands to six-eight billion \$ per annum if we take into account informal remittances through the *hawala* network.<sup>9</sup> This could mean that approximately 20% of Yemeni households are dependent on remittances in some form or other.

There are some discrepancies between the sources of income for households that have women as their heads (as defined by the main earner), and for those that have men as their heads. Female-

<sup>7</sup> Household survey question 1: 'Please tell me what kind of work is currently the primary sources of income for your family?' Respondents could choose more than one source of income for their household; hence the total percentage is greater than 100.

<sup>8</sup> For example, '2018 Yemen Socio-Economic Update', Ministry of Planning and International Cooperation, February 2018.

<sup>9</sup> International validation interview, February 2020. Hawala networks do not involve movement of money, but in kind transfers.

headed households (39%) are more likely to rely on the public sector than male-headed households (33%) and on small private businesses (17%, compared to 11%). Female-headed households (11%) are less likely to rely on odd jobs and irregular work than male-headed households (20%), agricultural work (16%, compared to 11%), the transport sector (9%, compared to 5%) and retail (8%, compared to 3%).

The balance of sources of income is different for IRG and Dfa areas. The public sector is more important in IRG areas (36% compared to 33% for Dfa areas) as is agriculture (19% compared to 11%). On the other hand, Dfa areas are more dependent on large-scale private sector companies than IRG areas (26% compared to 17% for IRG areas). Importantly, while security employment is not considered a significant source of income in Dfa areas, it is ranked the sixth most likely source of income in IRG areas (11% of households). Inversely, while work in money exchanges is not a significant source of income in IRG areas, it is ranked the sixth most likely source of income in Dfa areas (again 11% of households).

This difference in income sources demonstrates that Yemenis are divided by opportunity and necessity, according to whether they reside in IRG or Dfa areas. For example, those in IRG areas may have greater opportunity to earn income through security employment, given the monies made available for such work from regional states. Given liquidity issues in Dfa areas, and the resultant greater reliance on money exchanges to provide cash, work in money exchanges provide opportunities to earn income that are more limited in IRG areas.

#### **Box 1: Access to money and currency exchanges in de facto areas**

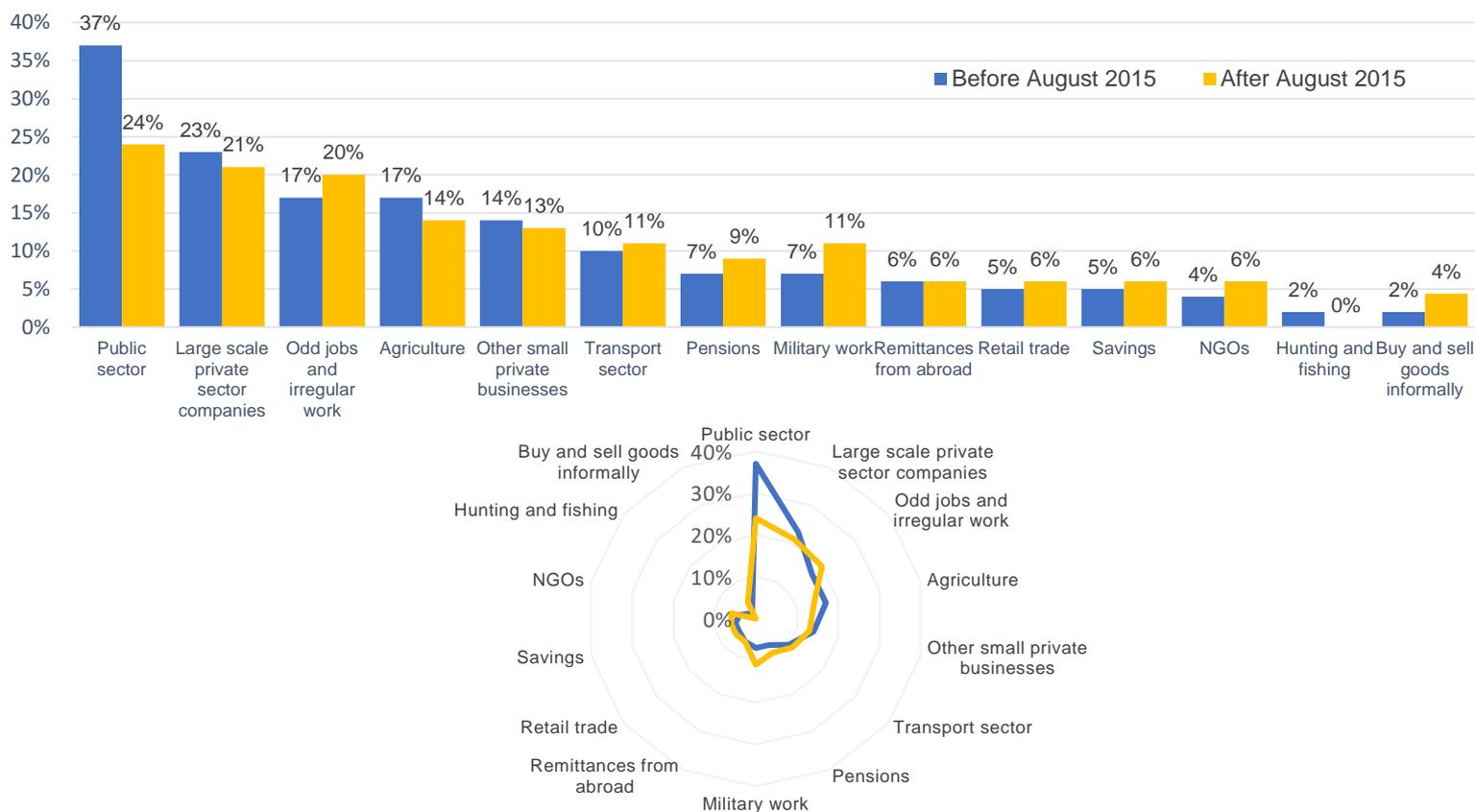
Yemen is experiencing a growing currency division. This is because the Dfa has banned new notes issued by the IRG Central Bank, requiring Yemenis to exchange these notes for old notes or for e-rials. This has reduced the circulation of money in Dfa areas, especially of smaller denomination bills that deteriorate more quickly (International validation interview, February 2020). As a result, reliance has increased on local money exchanges and the *hawala* network, with money in Yemen withdrawn against foreign currencies overseas. These local money exchanges have become an essential part of the functioning economy, allowing Yemenis to access money and purchase essential items. Money exchanges play an especially important role in more rural areas that have lower levels of access to banking services (Dfa focus group discussion, Ma'een, businesspersons, December 2019). The regulatory environment for such money exchanges is challenging, with the requirement to apply for a license from both the Dfa and IRG (which is renewed annually). Sana'a has demonstrated greater willingness to provide licenses for money exchanges than Aden. Nevertheless, many exchanges do not have any form of regulation, either operating independently or under the umbrella of a registered enterprise (International validation interview, February 2020). A secondary impact of the new-note ban has been inflation in IRG areas, as new notes from Dfa areas flood the market, often via use to trade in goods essential to Dfa areas (such as cooking gas).

The types of opportunities to earn income that Yemenis can access is also greatly informed by the levels of development and violence in their local areas. For example, agriculture dominates in underdeveloped areas of the country (especially in IRG areas) where it provides a quarter of all income, compared to less than 1% of all households in more developed areas. By contrast, large-scale private businesses provide income to 16% of households in more developed areas, compared to 10% of households in underdeveloped areas.

## 2.2 Temporary jobs in Dfa and security work in IRG areas

The protracted conflict has led to 36% of Yemenis households finding new ways of earning income,<sup>10</sup> and the search for new employment has become a common feature of Yemen's economy: "There is no doubt that five years under war forced people to change their jobs; there is a significant change. For example, when the salaries of the teachers stopped, they went to look for another job to live."<sup>11</sup> When a Yemeni family changes its source of income, it is very likely to also change income sector: 85% of Yemenis who report switching sources of income since 2015, also report moving to a new sector to find work.<sup>12</sup> Reliance on the public sector has shrunk most significantly, from 37% to 24% of households, followed by agriculture (17% to 14%) and large-scale private companies (23% to 21%). The main shift seems to be towards temporary irregular work (an increase of 17% to 20%) and security employment (an increase of 7% to 11%).

Graph 3: Change in household income from August 2015



The experiences of changes to the source of household income, and the opportunities and necessities driving changes, is again different for those in Dfa and IRG areas. Overall, Yemenis living in Dfa areas have experienced greater pressure to find new ways of earning money than in IRG areas: 43% of Yemeni households in Dfa areas have changed primary source of income since 2015, compared to 29% in IRG areas. The main decrease in public sector opportunities since 2015 is also in Dfa areas (27% to 12% of households) with public sector employment increasingly slightly in IRG areas (from 10% to 11%). Yemeni households in Dfa areas are most likely to have turned to

<sup>10</sup> Household survey question 2: 'Has your household's primary source of income changed since 2015?' 291 respondents.

<sup>11</sup> Dfa focus group discussion, Al Thawra, more educated, December 2019.

<sup>12</sup> Comparison of responses to household survey question 3: 'What was your primary source of income prior to 2015', and question 2 'Has your household's primary source of income changed since 2015'.

odd jobs and irregular work: an increase from 9% of households in August 2015 to 13% at the time of the survey. There was no increase in employment in such jobs in IRG areas. These variables demonstrate that Yemenis in Dfa are less likely to find stable sources of income than in IRG areas, and that this is partly driven by lower levels of access to public salaries. This analysis is supported by both the Dfa focus groups and interviews, in which participants expressed a concern that “Many businesses have closed, and job opportunities are rare. People cover their basic needs through aid received from different agencies and by selling this aid on the black market”.<sup>13</sup>

The move towards a security employment is more prevalent in IRG areas (an increase from less than 1% of households in August 2015 to 8%) than in Dfa areas (stable at 3%). The importance of security employment as a source of income in IRG areas is clearly demonstrated by responses to the question ‘In your community, what are the best opportunities that are available for an average man of 25 years, to earn some income for himself and his family?’<sup>14</sup> 61% of households in IRG areas selected security employment as one of the top three options for young men to earn money, compared to 35% of households in Dfa areas.

### **Box 2: Security employment in IRG areas**

Security employment in IRG areas is expanding for several reasons. First, security employment has been traditionally higher in Dfa areas than in IRG areas prior to the August 2015 conflict. This is partly because under the Saleh Government there were restrictions on military employment for Yemenis from the southern governorates. As such, it could be that security employment in IRG areas is moving towards a comparable rate to that in Dfa areas. Second, KSA and UAE have provided salaries for the national army and a range of other armed groups since 2015, both to counter Dfa forces and for operations against Al Qaida in the Arab Peninsula. This has created military funding that is not available in Dfa, meaning that there is greater earning potential for young men in security forces in IRG areas than in Dfa areas. Importantly, security employment was described in focus group discussions as guaranteeing a monthly payment, quite a rare occurrence in Yemen since 2015 (IRG focus group discussion, Mukalla, businesspersons, November 2019). Focus groups discussions also demonstrated how, in Dfa areas, incentives for security employment are more likely to be provided (e.g. placement on beneficiary lists, access to the formal rate for cooking gas and transportation allowances) rather than direct salary payments (see section 4.4).

The rate of selection of the other options for how young men can earn an income is similar between Dfa and IRG households (within a 5% window) with important exceptions. There is greater scepticism in Dfa that young men can find income at all: 36% of Dfa households believe that the best option is for their young men is to move abroad to find work, compared to 20% in IRG areas.

There is also a telling difference in young men’s ability to earn a living depending on the level of local conflict and development.

- Men in more developed parts of Yemen are better able than their counterparts in underdeveloped areas to enter the private sector (40% of household respondents in more

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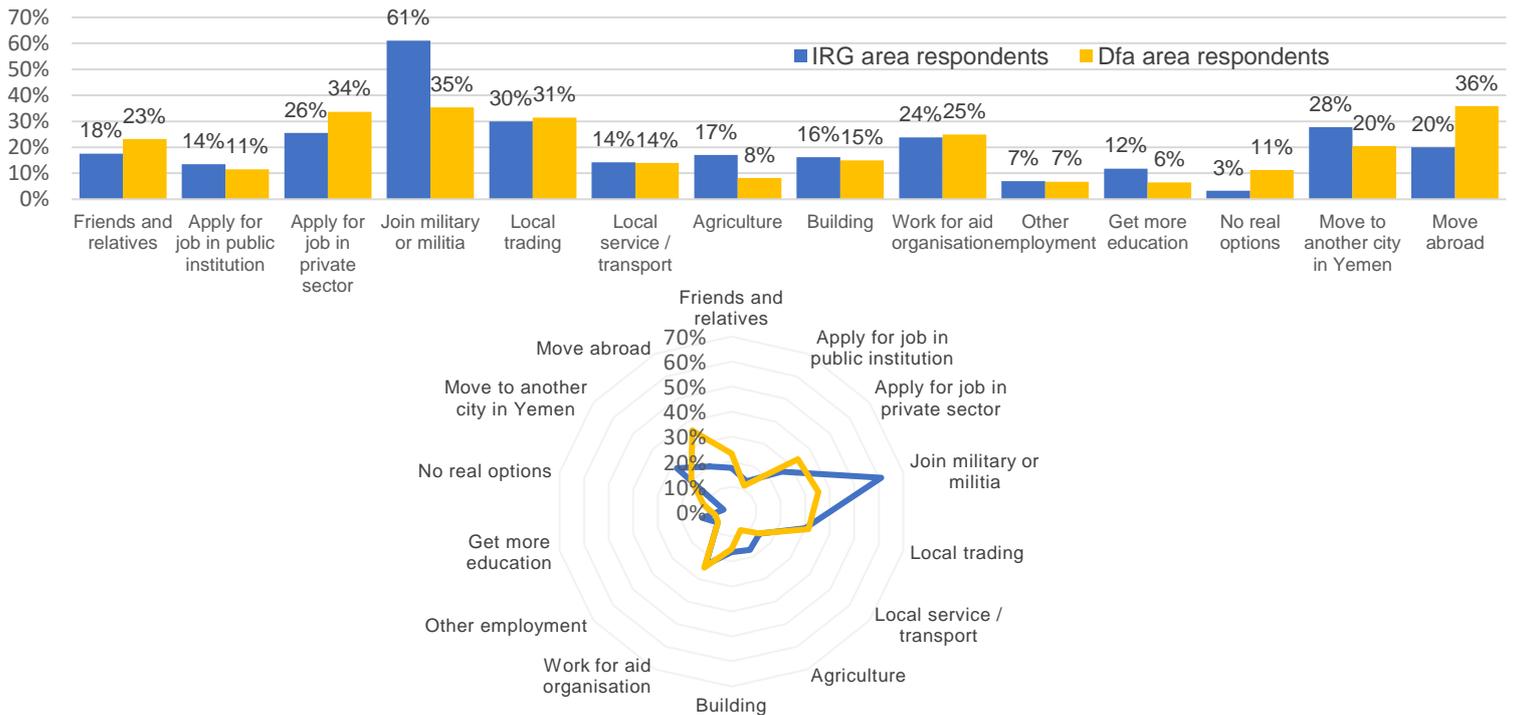
<sup>13</sup> Dfa area interviews, December 2019.

<sup>14</sup> Household survey question 11: Respondents were asked to provide three responses, from most important (1) medium importance (2) and least important (3).

developed areas versus 19% in underdeveloped areas) or to trade locally (37% versus 24%).

- Men in high-violence contexts are more likely to move to another city or abroad in search of income. For example, 33% percent of households in high-violence contexts view moving abroad as a good option for young male family members to earn money, compared to only 16% in low-violence contexts.

Graph 4: How can young men earn money



Overall, these findings paint a story whereby those living in IRG areas that are affected by high levels of violence and low development have little option but to turn to security work. While those in Dfa areas have little option but to take on temporary unstable work or to move abroad: “[even] passports have become more expensive, because people are obliged to travel abroad for work”.<sup>15</sup>

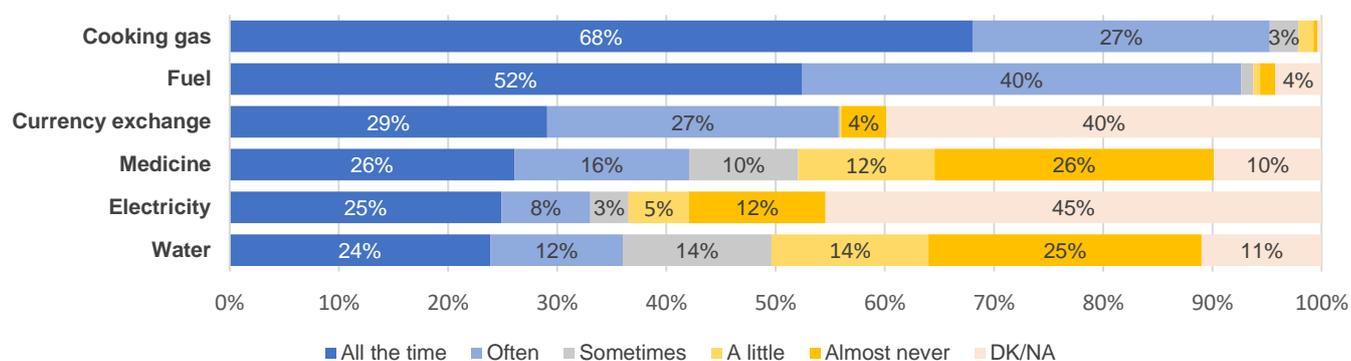
There are also some important distinctions in responses by gender. Women are much more likely than men to believe that the best avenue for young men to earn an income is through friends and relatives (28%, compared to 18%) or by enhancing their education (18%; 7%). Women are less likely than men to view the transport sector (5%, compared to 17%), agriculture (8%; 14%), moving to another city in Yemen (17%; 26%) or moving abroad (23%; 29%) as viable options for young men to earn money. Women are also less likely than to view military employment as a viable option (43%, compared to 50%). This scepticism is especially pronounced in IRG areas, where 68% of men view joining the military as a good option, but only 45% of women think the same. This may demonstrate that women are more likely to value community and education as economic action, over manual labour and migration. It also demonstrates that women are more reluctant to allow for military employment to become a norm among young men.

<sup>15</sup> Dfa focus group discussion, Shu’ab, young people up to the age of 40, December 2019.

## 2.3 Growth of the black market and ‘functioning economy’

Household survey respondents were asked to describe the degree to which they rely on the black market versus the formal market for basic goods and services.<sup>16</sup> For the purposes of this study, the ‘black market’ is used to signify market activity that falls outside regulatory frameworks, or when Yemenis are required to make additional payments or bribes on top of formal charges. The survey results demonstrate that the black market is increasingly dominant, and Yemenis rely on it for access to critical goods: 95% of respondents use the black market to purchase cooking gas (often or all the time) 93% for fuel, 79% for financial services, 42% for medicine, 36% for water and 33% for electricity. Interestingly, female-headed households are less likely to report using the black market ‘often’ or ‘all the time’ than male-headed households for electricity (27%, compared to 35%), water (19%; 41%) and medicine (30%; 46%). The importance of the black market for everyday life in Yemen was underlined by the focus group discussions and interviews: “The monopoly run by small groups in certain economic sectors, such as food, oil and electricity, has led to the emergence of violence and weakened any opportunity for peace”.<sup>17</sup>

Graph 5: How often do you rely on the black market or bribes?



Defining the ‘black market’ is a challenge in Yemen given the de facto existence of two separate authorities, the snowballing of parallel regulatory frameworks and the sanctioning of black-market activities by political and security leaders. For example, the Dfa have in many areas implemented market rules that are not endorsed by the IRG, do not exist in IRG areas and hence are not recognised internationally. Are activities that fall within Dfa regulations part of the black market?

It is useful to distinguish between the black market and the ‘functioning market’, signifying market activity that may fall outside internationally recognised regulatory frameworks but is essential for Yemenis’ livelihoods and resilience. For example, there seems to be a difference in the black market that has developed for cooking gas, as opposed to the functioning market of currency exchanges (both in Dfa areas). The black market in cooking gas is based on an extraction model designed to maximise rent from families, engender favourable responses (e.g. recruitment into armed forces) and provides opportunities for corruption. By comparison, the money exchanges, while regulated by the Dfa provide an essential service to Yemenis.

The challenge in defining whether currency exchanges are part of the black or formal market is illustrated by the 40% of respondents who stated they ‘do not know’ how often they use the black market for money services. The broader problem of knowing whether economic activity is legal or not was also raised in the focus groups and interviews. In addition, research participants also

<sup>16</sup> Household survey question 22: ‘For each of the following services, how often do you rely on the black market or on additional payments, on top of official prices?’

<sup>17</sup> IRG area interviews, December 2019.

explained that the legality of economic activity is of little importance to most Yemenis, as long as such activity helps them to survive: “We become confused and can’t distinguish between what is legal and illegal anymore. The arrogance, violence and injustice of the conflict parties have turned the citizens into victims who are just looking to survive”.<sup>18</sup>

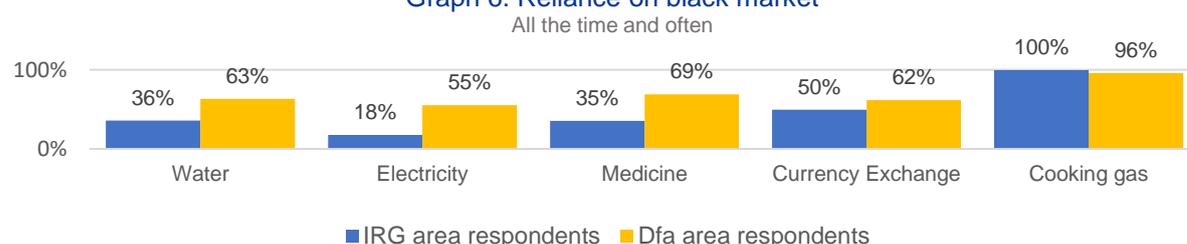
### Box 3: The black market for cooking gas in Dfa areas

The black market for cooking gas is substantial, especially in Dfa areas. The Dfa have endorsed the use of two rates for cooking gas, a formal rate and a higher informal rate. One focus group participant noted that the price difference could be more than YER 12,000 (\$21), with gas cylinders priced at YER 1,200 (\$2) at the formal rate and YER 14,000 (\$25) at the informal rate (Dfa focus group discussion, Shu’aub, young people up to the age of 40, December 2019). Households who have family members in security groups can purchase cooking gas at the lower formal rate, with other families required to purchase at the higher informal rate. The higher informal rate includes additional Dfa taxes as cooking gas is being distributed, at the bottling point, by the *mushraf* (local organisers) and by *aqel al haras* (head of community). The cost to a household can increase even further depending on personal bribes gathered by *aqel al haras*, or if they distribute gas cans that are not full (with the recipient household paying the price of a full cylinder). The research pointed to cooking gas being an important point of both cooperation and competition between influential groups in Dfa and IRG areas. Firstly, armed groups compete for the right to sell cooking gas and have established distribution and sales channels in local neighbourhoods for this purpose; especially in rural areas (Dfa focus group discussion, Ma’een, businesspersons, December 2019). At the same time, groups in the Dfa and IRG can cooperate across the conflict divide in black-market trade of cooking gas into Dfa areas (International validation interview, February 2020).

The black or functioning market is especially dominant in Dfa areas:

- The use of local money exchanges is more widespread in Dfa areas (62% of respondents use all the time or often) than IRG areas (50%). This reflects the greater reliance on currency exchanges in Dfa areas due.
- Use of the black market to obtain water is far more prevalent in Dfa areas than IRG areas, with 51% of all Dfa households respondents stating they use the black market or bribery for water often or all the time, compared to 17% in IRG areas.
- Yemenis are more likely to use the black market for medicine in Dfa areas (57%) than in IRG areas (27%). This correlates with a more limited supply of medicines and the creation of a monopoly over the pharmaceutical industry by Dfa officials.<sup>19</sup>

Graph 6: Reliance on black market



<sup>18</sup> IRG area interviews, December 2019.

<sup>19</sup> International validation interview, November 2019.

## 2.4 Construction, cooking gas, fuel and money exchanges

The expanse of the black and functioning markets provides a significant opportunity for earning from limited commodities (e.g. currencies or fuel) and for corruption among state representatives (e.g. medicine or cooking gas). Such opportunities can be used for personal gain, to help fuel the war effort or the distribute for political legitimacy. Focus group discussions and key informant interviews identified the following economic enterprises as most profitable given the ongoing conflict context:<sup>20</sup>

- **Land ownership, building and construction:** This sector is perceived to have risen dramatically in profitability, attracting capital and cash saving, at the expense of banks. Yemenis are less likely to trust banks with the savings and view buildings as a solid investment.
- **Cooking gas:** Businesses trading in cooking gas are thought to be very profitable given the limited supply available, especially in Dfa areas. These businesses often work across the Dfa-IRG divide, transporting cooking gas from IRG to Dfa areas. Businesses in this sector are perceived to be at particular risk of rent seeking from Dfa. This is borne out by the multiple levels of rent earned on cooking gas: at delivery, bottling, by the *mushraf* and by the *aqel al haras*.
- **Fuel trading:** The informal fuel sector is perceived to offer significant income following floating of the oil price. That said, focus group participants also noted that smaller fuel stations had been closed, either due to competition from the black market or because of Dfa interference. The fuel trade was also flagged as a source of competition between the Dfa and IRG.
- **Money exchange:** As noted above, the market in money exchanges has developed since 2015, and especially in more rural Dfa areas. In addition, some exchange companies were described as using their sources in the Central Bank of Aden to predict the dates of price fluctuations and invest accordingly.

While less profitable the following business areas were also thought to have expanded since 2015:<sup>21</sup>

- **Local electricity grid:** Underdevelopment of the national electricity grid predates 2015. This includes widespread installation of local private diesel generators that sell electricity to a neighbourhood, with diesel imported and traded on the black market. Since 2015, fragmentation of the local electricity group has accelerated, especially for Dfa areas with the ongoing disagreement of electrical supply from Marib. Some interviewees argued that the private generators have been a target for takeover by influential figures in the Dfa.<sup>22</sup>
- **Transportation services:** This includes (1) Yemenis taking up odd jobs as a couriers or taxi driver. In addition, (2) some tourist companies refocusing their business model on safe transport of people, especially families who are afraid to stop at checkpoints. They can facilitate such movement because of their links with officials and decision-makers. Finally, (3) transport of fighters was also referenced as a good source of income for former tourist companies. Finally, private haulage businesses were thought to have expanded as public haulage fleets have stopped working.

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<sup>20</sup> Dfa focus group discussion, Ma'een, businesspersons, December 2019; IRG focus group discussion, Al Muthafer, higher education level, December 2019.

<sup>21</sup> Dfa focus group discussion, Ma'een, businesspersons, December 2019; IRG focus group discussion, Al Muthafer, higher education level, December 2019.

<sup>22</sup> International validation interview, February 2020.

- **Food industries:** Food industries are perceived to have gained importance given import restrictions and the limited availability of goods in the market. This includes dairy products, yogurt, ghee, soft drinks, local alcoholic beverages, and mineral water.
- **Trading in international food aid.** Dfa interviews also pointed to the potential to earn money by selling or re-selling food provided by international organisations through the aid system.<sup>23</sup> Interviewees were not clear as to whether these food businesses are in some way sanctioned or accepted by international organisations.
- **Traditional home industries:** As larger industries have collapsed, it is argued that there has been a recourse to home industries such as sewing, incense-making, and food production. Such home industries tend to be dominated by women.
- **Communication services:** While the conflict has protracted, Yemenis are more reliant on mobile communications. As a result, service industries are thought to have expanded, including the sale of mobile phones and instant charge cards.
- **Qat production:** Production and trade in qat are assessed to be very profitable, with some families spending as much as \$100 a month on qat. The profitability of qat production was felt to have displaced some agricultural trade. Importantly, focus group participants with lower levels of education referenced the opportunities to earn an income through working in qat fields or markets.<sup>24</sup> Such, opportunities were not referenced in other focus groups.

Gains in these sectors have been offsets by closures of others that are less profitable, especially factories. Examples given include: the Al-Aqel Factory for food industries in Al-Nahda; the iron and steel factory in Bani Al-Hareth district, north of Sana'a; and a factory for plastic processing in althawra (although the later was closed after being targeted by air strikes). These closures are most prevalent in Dfa areas, with IRG focus group participants and interviewees noting the opening of some factories in their areas. For example, interviewees estimated that while over 250 businesses in Aden Governorate have closed because of the war, approximately 1,000 new businesses have opened.<sup>25</sup> Indeed, some IRG research participants pointed to increased economic opportunities in southern governorates, as trade into Yemen has been redirected from the north due to the conflict. This is felt to be especially the case for port cities such as Aden and Hadramaut: "Since 2015, the war in Yemen has positively reflected on us by virtue of transforming Aden into an economic and commercial capital. Business and profit have been transferred to Aden";<sup>26</sup> "Hadramaut with its land and seaports has become attractive for local trade and investment".<sup>27</sup>

Profitable business depends on political and tribal relations, as such businesses are perceived by to be at risk from rent by authorities or by direct takeover, especially in Dfa areas (see sections 3 and 4). Dfa interviews pointed to the importance of businesses agreeing to corrupt practices or authorities' rent demands. For those that do agree, the war is felt to provide good business opportunities: "It is business as usual for merchants who are close to the leadership on both sides, as long as they are paying commissions and bribes".<sup>28</sup> IRG interviewees did not have the same perception about the Aden government. Instead, in IRG areas, business owners have had to adapt to new local power and security dynamics, and they need to hold relationships with local influential persons, especially tribal leaders. For example, IRG businesses owned by members of the Yafaa tribe are believed to have flourished in such activities as gold trading, hotels and private hospitals.<sup>29</sup>

<sup>23</sup> Dfa area interviews, December 2019.

<sup>24</sup> Dfa focus group discussion, Khadir, lower education levels, December 2019.

<sup>25</sup> IRG area interviews, December 2019. The period of the closures/openings and the types of businesses were not specified.

<sup>26</sup> IRG area interviews, December 2019.

<sup>27</sup> IRG focus group discussion, Mukalla, businesspersons, November 2019.

<sup>28</sup> Dfa area interviews, December 2019.

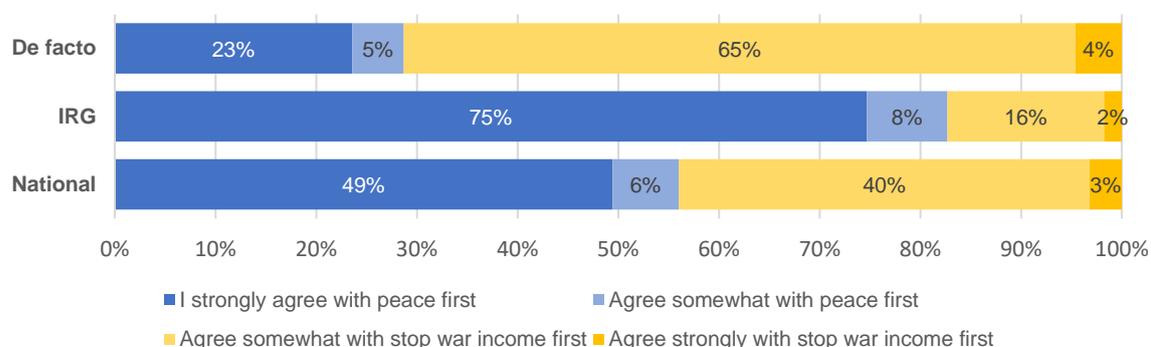
<sup>29</sup> IRG area interviews, December 2019.

## 2.5 Economic interests in the conflict and its protraction

Household respondents were asked whether: (1) they believe that economic development is dependent on peace; or whether (2) vested business interests benefiting from the war are preventing the potential realisation of a peaceful settlement.<sup>30</sup> The question is a proxy for understanding Yemeni's perspectives on what comes first – de-corruption of the economy, or peace. The difference in how households in the Dfa and IRG areas responded is illuminating. Some 69% of respondents in Dfa areas believe that business interests are driving the war and must be dealt with first in order to be able to achieve peace (agree somewhat or strongly with the statement ‘to have peace we first need that powerful people no longer earn an income from war’). Women in Dfa areas are even more likely than men to believe that stopping the war depends on addressing existing economic incentives: 79% of women agree or strongly agree, compared to 67% of men.<sup>31</sup>

**Graph 7: Which statement do you agree with?**

(1) For the economy to develop and many people to earn income we first need peace.  
 (2) To first have peace we first need that powerful people no longer earn income from war



By contrast, 83% of IRG area respondents believe the inverse is true, and that an improved economic situation can only follow the cessation of hostilities and a sustainable peace (somewhat or strongly agree with the statement ‘for the economy to develop and many people to earn an income we first need peace’).

This is a very stark difference, and one that is rarely seen in similar research. The findings seem to suggest that in Dfa areas, important groups and individuals are (more than the IRG) benefiting economically from the conflict, and that such groups may believe it is in their interest for it to continue. This analysis correlates with the above findings that the black and functioning markets are much more widespread in Dfa areas than in IRG areas, and is further supported by feedback from the Dfa focus group discussions and interviews: “Decision-makers and politicians put their own interests ahead of public reconciliation and of the country. Corruption among politicians and parties to the conflict feeds the desire for the conflict to last”.<sup>32</sup> As such, peace would not be achievable without a shift in incentives which demonstrate that the same or greater economic opportunities would exist after a peaceful settlement.

<sup>30</sup> Household survey question 23: ‘Here are two statements. Which one do you agree with? Statement 1: For the economy to develop and many people to earn income, we first need peace. Statement 2: To have peace, we first need that powerful people no longer earn income from war.’

<sup>31</sup> It should be noted that this figure is not statistically relevant as there were only 63 women respondents in Dfa areas compared to 338 men (16% of the Dfa sample). While not statistically relevant, it is still a good indicator of potential differences in gender perspectives.

<sup>32</sup> Dfa area interviews, December 2019.

# 3 Coping and surviving

**This section explores how Yemenis** have coped with the changing economic environment. What are the economic issues they are facing and how important are these issues compared to other concerns? What steps have Yemenis taken to cope and survive? Are they able to access the opportunities arising from the war, and are they doing so? How do coping strategies influence decision-making on conflict issues?

Economic insecurity is as important for Yemenis as physical insecurity, especially given their struggle to purchase food. Yemenis have coped with economic hardship by spending their savings and selling their possessions. However, many have moved to survival mode, with a large proportion reliant on food aid or deciding to move to other areas in search of livelihoods.

- **Economic insecurity is as relevant as physical insecurity:** While physical threats are widespread in Yemen (renewed violence is a threat for 28% of Yemenis, crime for 25%), inability to earn money is the most often named threat, with 30% of Yemenis stating lack of income makes them insecure. Concern at loss of income or because of poor services is perceived to be more pressing in IRG areas, while those in Dfa areas were more concerned with physical threats. This is because Dfa residents face greater physical threats, not because their economic situation is more secure than that of IRG residents.
- **Yemenis spend most on food:** The largest economic burden facing families is food purchases, with the average family spending Yemeni Rial (YER) 85,558 (\$153)<sup>33</sup> a month on food. The next most expensive household expenditure, housing (YER 21,403/\$38 per month), accounts for approximately a quarter of the monthly cost of food. Cost of housing is higher in developed urban areas or in areas suffering from higher levels of violence.
- **Escalation from economic coping to survival:** 62% of all Yemeni households have been forced to sell personal possessions to cope economically; primarily jewellery, savings, heirlooms and livestock. Not all have had equal opportunity to sell assets, with this strategy more available to families in more developed areas. Having sold possessions to cope, Yemenis are increasingly reliant on aid to survive, with 58% of households reliant on monthly food aid. Receipt of food aid is greater in IRG than Dfa areas, but most probably due to greater challenge faced by aid agencies and others reaching those in need, rather than lower levels of need.
- **Displacement for economic reasons, primarily in Dfa areas:** Yemeni IDPs are split between those who have fled fighting and threats (33%) and those who have moved because they are struggling to 'get by' (24%) or in search of work (19%). While the sampling size for IDPs is small, the findings seem to suggest that IDPs in Dfa areas are more likely to have moved for economic reasons, rather than their counterparts in IRG.

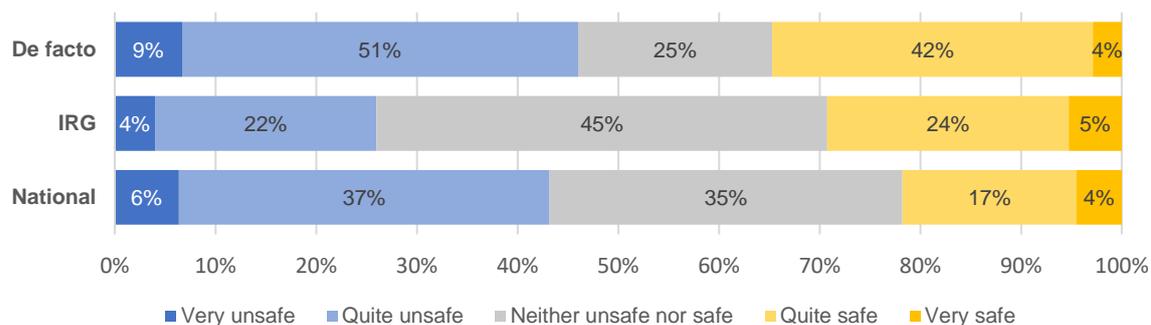
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<sup>33</sup> Exchange rate used as of January 2020: [https://ec.europa.eu/info/funding-tenders/how-eu-funding-works/information-contractors-and-beneficiaries/exchange-rate-infoneuro\\_en](https://ec.europa.eu/info/funding-tenders/how-eu-funding-works/information-contractors-and-beneficiaries/exchange-rate-infoneuro_en)

### 3.1 Economic insecurity in IRG, physical insecurity in Dfa

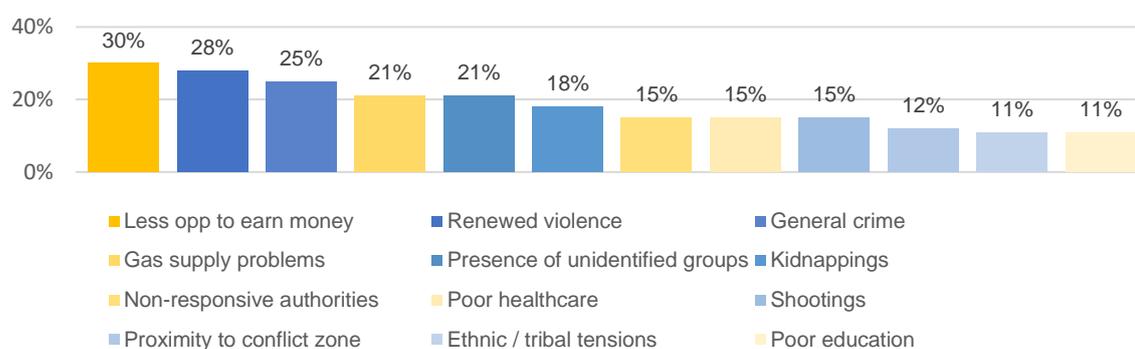
A substantial proportion of the Yemeni population feels unsafe:<sup>34</sup> 43% of Yemenis feel quite unsafe or very unsafe in their community, and 35% feel neither safe nor unsafe. People living in Dfa areas are more than twice as likely (60%) to feel quite/very unsafe as those living in IRG areas (26%). This perception of insecurity in Dfa areas cuts across both high and low-violence contexts.

Graph 8: How safe do you feel in your community?



Participants were subsequently asked to identify what represents a threat to them personally.<sup>35</sup> The most frequently selected option (respondents could choose three ranked options) is ‘less opportunity to earn money’, selected by 30% of households. The next most often selected options are renewed violence (28%) general crime (25%) problems with gas supply (21%) the presence of unidentified armed groups (21%) and kidnappings (18%). This demonstrates that Yemenis suffer from the dual challenges of physical insecurity (indicated in blue on the following graph) and the struggle to earn an income or to access services (indicated in yellow).

Graph 9: What represents a threat to you personally?

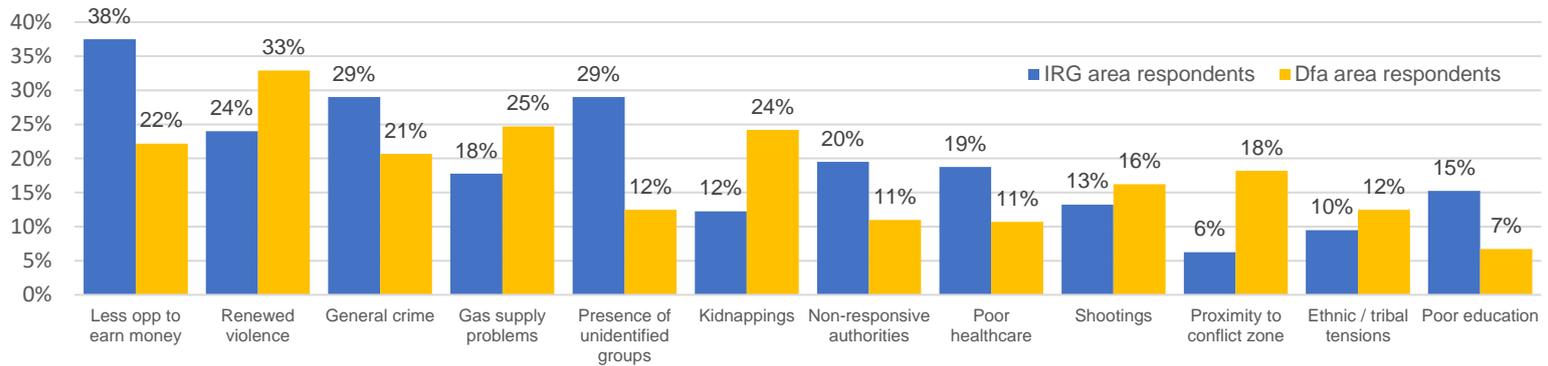


What is most threatening to Yemenis differs between Dfa or IRG areas, with those living in IRG areas more threatened by challenges accessing income and poor service delivery. For example, 37% of IRG household respondents identified not earning income as a threat, compared to 22% in Dfa areas. Indeed, IRG households ranked inability to earn an income as the primary threat to their safety, while Dfa household respondents ranked this issue as the fourth greatest threat. IRG household respondents were also about twice as likely to select non-responsive authorities, poor education and poor healthcare as threats, compared to Dfa households.

<sup>34</sup> Household survey question 13: ‘How safe do you feel in your community?’

<sup>35</sup> Household survey question 15: ‘What represents a threat to you personally? Please tell me which are at the first, the second and the third place.’

Graph 10: Comparison of perceptions of threat



By contrast, households in Dfa areas are much more affected by physical security associated with the conflict. Their principle concern is the threat of renewed violence, with 33% of household respondents identifying this issue as a threat, compared to 24% in IRG areas. Similarly, proximity to the conflict zone and kidnapping are roughly twice as likely to be considered a threat in Dfa areas than in IRG areas. The difference in response patterns between Dfa and IRG areas on perceptions of security require a nuanced analysis. The response patterns demonstrate that physical threats are a much greater reality in Dfa areas and that Dfa areas are comparatively much more affected by violence (and the potential for violence) than IRG areas. Secondly, however, this does not mean that people in Dfa areas have greater economic security. Indeed, the findings in section 2 'Opportunities in conflict' demonstrate that households in Dfa areas are less economically secure than those in IRG areas, with IRG respondents much more likely to believe that their young men need to leave home to earn an income. Rather, physical security threats are so present in Dfa areas that economic issues are less pressing, even if economic insecurity is also widespread.

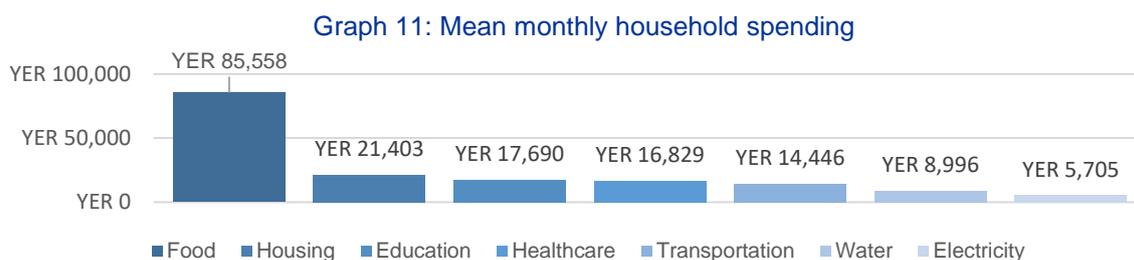
#### Box 4: Gender and perceptions of safety

Men are more likely to report feeling quite unsafe or very unsafe (46%) in their communities than women (35%), but the causes of insecurity differ. Women are much more likely than men to report the threat of shootings (20%, compared to 13%), kidnappings (25%; 16%), unresponsive authorities (19%; 14%) and less opportunities to earn money (39%; 27%). At the same time, women and men report the same levels of threat posed by renewed violence (28%; 29%), proximity to conflict zones (15%; 11%), presence of armed groups (19%; 21%), tribal tensions (12%; 11%), and general crime (27%; 24%). Overall, this paints a picture of women heads of household who are more optimistic than men about the security of their own communities, even while they are wary of the possibility that things could change for the worse at any moment.

Two response patterns contradict this trend of economic insecurity in IRG areas and physical insecurity in Dfa areas. IRG areas are more fearful of unofficial armed groups (29% of household respondents compared to 12% in Dfa areas) and general crime (29% of household respondents, compared to 21% in Dfa areas). Indeed, these two issues are the second and third priorities for IRG households. These findings underlying the growing role of non-state armed actors in IRG areas, compared to the greater dominance of the security sector by the Dfa in the areas in controls. It also demonstrates that opportunities to earn rent from the market are dominated by the Dfa in the areas they control, while there is greater competition among a range of groups in IRG areas.

### 3.2 Food is a critical priority, housing in some areas

Households spend most of their income on food in order to survive. On average, each family spends YER 85,558 (\$153) a month on food.<sup>36</sup> Food is more expensive in more developed areas (YER 95,703 /\$171 per month) compared with underdeveloped areas (YER 75,584/\$135 per month). The high burden of feeding families together with disappearing wages was strongly conveyed in the focus group discussions: “We dispense with some foods such as sweets, cheeses and fish. We rarely eat meat, maybe once a week. Everyone is trying to earn money in ways that were not present in the past”;<sup>37</sup> “We used to eat three meals, and now we eat two. We live by austerity and being economical”.<sup>38</sup>



The next most expensive household expenditure is housing (YER 21,403/\$38 per month) accounting for approximately a quarter of the monthly cost of food. While not covered in the survey, focus group participants stated that a household can spend up to \$100 a month on qat (circa. YER 25,000); which can be more than is spent on accommodation.<sup>39</sup>

While household spending is mostly similar across the variables tracked in the survey (authority control, level of development and proximity to violence), housing is more expensive in high-violence contexts and more developed areas. The mean monthly cost of housing in high-violence contexts is YER 25,528 per month (\$46), compared to YER 17,408 (\$31) in low-violence contexts. The mean monthly housing cost is YER 34,345 (\$61) per month in more developed areas, compared to YER 8,603 (\$15) in underdeveloped areas. This is consistent with the limited living spaces available in urban developed areas as families move to flee violence or in search of economic opportunities.

### 3.3 Selling assets as a coping strategy

In addition to finding new jobs (see section 2 ‘Opportunities in conflict’), Yemenis have supported their income by selling off their possessions: 62% of all household respondents state they had sold possessions to afford food and water. The rate of selling assets is slightly higher in Dfa areas, at 65% compared to 59% in IRG areas. Perhaps more important, those Yemenis living in more developed areas are more likely to have sold their belongings than those in underdeveloped areas: 69% compared to 54%. There is an exception: 49% of households in more developed Dfa areas that are also experiencing high levels of violence reported selling off their possessions. If we remove these respondents, the rate jumps to 75% for more developed areas. This indicates that formerly wealthy families have a greater ability to sell items to survive, but only when there is a functioning local market. It also raises the question of how those that are not able to sell off possessions survive when faced with reduced income.

<sup>36</sup> Household survey question eight: ‘Approximately, how much does a normal/average household in your neighborhood spend each month on each of the following?’

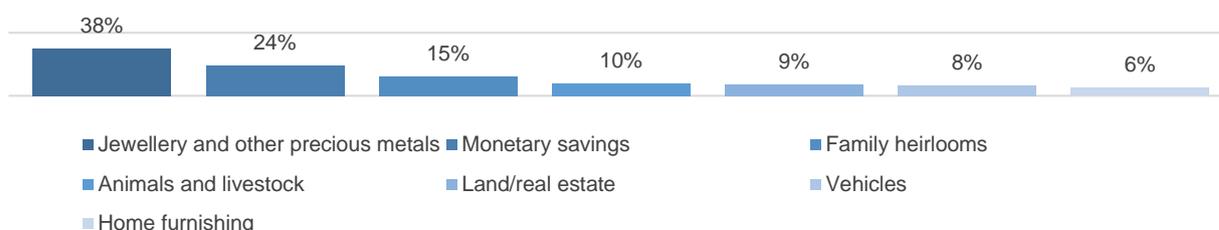
<sup>37</sup> Dfa focus group discussion, Shu’aub, young people up to the age of 40, December 2019.

<sup>38</sup> IRG focus group discussion, Al Selw, lower education level, December 2019.

<sup>39</sup> IRG focus group discussion, Al Selw, lower education level, December 2019.

About 38% of households have sold jewellery and other precious metals, making it the most widespread possession sold to survive.<sup>40</sup> The second most widespread possessions sold by families are monetary savings (24% of households) followed by family heirlooms (15%). Less frequently sold possessions are animals and livestock (10%), land/real estate (9%), vehicles (8%) and home furnishing (6%). Female-headed households (13%) were less likely to have sold savings than male-headed households (27%), as well as heirlooms (11%, compared to 17%).

Graph 12: Households and the possessions sold



There are three important differences in how Yemenis have sold their possessions:

- Dfa households are much more likely to have used their monetary savings to cope: 28% of Dfa households sold off such possessions, compared to 20% of IRG households. This potentially corroborates the analysis that the economic situation in Dfa areas is more difficult. The use of salaries to survive was also confirmed by the IRG focus group discussions: “I had savings of nearly 12 years that ended in the first two years of the war”.<sup>41</sup>
- Households in underdeveloped areas are much more likely to sell their livestock to survive, with 15% of households in such areas having sold their livestock compared to only 5% in more developed areas:<sup>42</sup> “We sold our things and livestock cheaply, and my family and I adapted to what we have, and then we sold our savings of gold and my *Jambia* (sword) and now we resort to borrowing money”.<sup>43</sup> This is consistent with the greater reliance on agriculture as a source of income in underdeveloped areas.
- Households in more developed areas are more likely to have sold family heirlooms (21%, compared to 10% in underdeveloped areas), vehicles (12%; 5%) or home furnishing (8%; 4%). Again, this is consistent with the greater affluence in more developed areas and likelihood of owning such items. Sale of heirlooms is especially important as it points towards economic despair as the sale of heirlooms is considered an act of last resort.<sup>44</sup>

The importance of selling assets to survive was repeated in the Dfa focus groups and interviews, where participants described how the lack of government jobs has forced people “Most people had to sell their belongings and others were forced to migrate to other regions of the country”.<sup>45</sup> Focus group participants told the following stories of why they felt the need to sell personal items. One participant had to sell his modern car and buy a less efficient one to meet the private tuition fees for his four children, as the public education system had collapsed. Another participant’s female relative was forced to sell her jewellery to fund her family’s displacement from Hodeida to Sana’a.<sup>46</sup>

<sup>40</sup> Household survey question seven: ‘What kind of possessions have you had to liquidate or sell, since 2015?’ Respondents could choose more than one source of income for their household; hence the total percentage is greater than 100.

<sup>41</sup> IRG focus group discussion, Al Muthafer, higher education level, December 2019.

<sup>42</sup> Household survey question six: ‘Since 2015, have you or anyone in this household had to sell off possessions or spend savings in order to have enough money to purchase food or water?’

<sup>43</sup> IRG focus group discussion, Al Selw, lower education level, December 2019.

<sup>44</sup> Interview, Yemeni academic (DFA areas), August 2019.

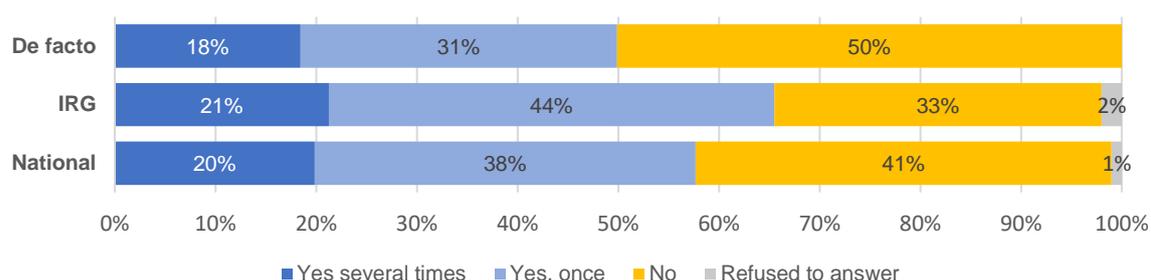
<sup>45</sup> Dfa area interviews, December 2019.

<sup>46</sup> Dfa focus group discussion, Ma’een, businesspersons, December 2019.

### 3.4 Reliance on food aid from international organisations

In the initial stages of the Yemeni conflict after August 2015, families sold off assets to buy food and other critical goods. However, as these assets were sold, there has been an increasing reliance on international aid. Over half of households demonstrate some dependency on food aid, with 20% of household respondents stating they had received food aid several times in the month preceding the survey and 38% stating they had received food aid just once in the same period.<sup>47</sup> This means that over half the Yemenis population us reliant on food aid on a monthly basis (or at least accessing food aid).

Graph 13: In the past month did you receive food aid, free of charge?

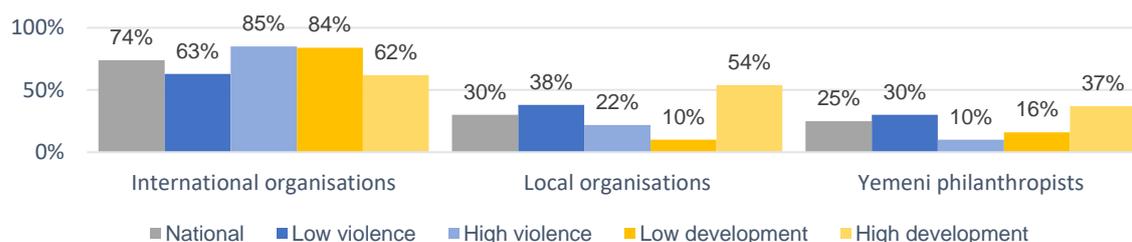


Receipt of food aid was higher in IRG areas, with 65% of households receiving some form of food aid in the month preceding the survey, compared to 49% in Dfa areas. This discrepancy perhaps speaks more to the greater difficulty that aid agencies and others face in delivering food aid (and all types of aid) in Dfa areas, rather than a lower level of need. This analysis is supported by the finding that Yemenis in Dfa high-violence contexts were least likely to receive food aid than all the other areas, with 74% of such households stating they had not received food aid. Such households would be most difficult to reach, requiring negotiation of Dfa restrictions and local violence.

Household respondents identified international organisations as the main delivery agent of food aid: 74% of food aid recipients stating that such organisations provided a recent substantial delivery.<sup>48</sup> The second most frequent provider of food aid is Yemeni local organisations (30%) followed by philanthropists (25%). Families (10%), local businesses (6%), tribal elders (5%), local councils (4%) and Sana'a (3%) only play a minor role. Importantly, neither Aden nor the governorate are attributed a role in providing food aid. Patterns in food delivery are relatively stable across Dfa and IRG areas, with 74% of recipients in both areas stating they received a recent substantial delivery from international organisations, and 25% in both saying the same for philanthropists. The main discrepancy is for local organisations: 34% of respondents in Dfa areas had a recent substantial delivery from such organisations, compared to 27% in IRG areas.

Graph 14: Provider of most recent food aid

Top three providers



<sup>47</sup> Household survey question nine: 'In the past month, did you receive food aid free of charge?'

<sup>48</sup> Household survey question ten: 'Who gave you the most recent substantial delivery of food aid?' Respondents could select up to three options.

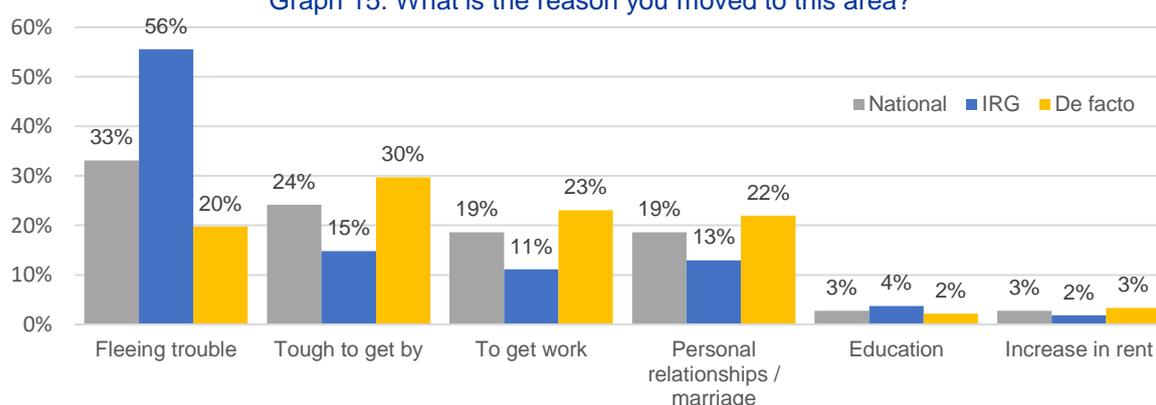
There are, however, major differences in food providers depending on the levels of violence and development experienced in a community. Households in high-violence and underdeveloped areas are much more dependent on international organisations than for food aid than those in low-violence and more developed areas, where local organisations and philanthropists instead play a significant role. For example, 54% of food recipients in more developed areas received aid from local organisations, compared to 10% in less developed areas. Similarly, 38% of food recipients in less violent areas received a recent substantial delivery from local organisations, compared to 22% in more violent areas. This demonstrates the critical role that international organisations play in providing aid in more difficult areas, where national initiatives are by themselves insufficient.

### 3.5 Displacement as economic coping in Dfa areas

The household survey included 145 displaced households, or 18% of all respondents. Most displaced households participating in the survey are in Dfa areas (63% of IDP respondents).<sup>49</sup> This provides further evidence that this study’s sample is representative, since the International Organisation for Migration’s Displacement Tracking Matrix finds that 66,402 households or 18.8% of the population is displaced.<sup>50</sup> Due to the survey’s methodology, household respondents do not include those living in IDP settlements or public buildings (e.g. schools).

Of the displaced respondents, there is an almost equal divide between those who had moved to areas where they have existing ties to families and friends (53%) and those that had moved to areas where they have no ties (47%).<sup>51</sup> This demonstrates there is a balance between displaced Yemenis who are able to some degree to fall back onto existing support networks to cope when forced to flee their homes, and those who are in more dire need and whose coping strategy requires them to move beyond support networks. The primary reasons for Yemenis to move to a new area is mixed. The most cited reason for people to leave their home is because they are fleeing trouble (33%), followed by a struggle to ‘get by’ (24%), to find work (19%) or for personal relationships (also 19%).<sup>52</sup> However, ‘getting by’ and finding work cumulatively account for close to half of responses (43%); demonstrating that for many economic considerations are overall greater than the fear of insecurity and violence when families are deciding whether to move.

Graph 15: What is the reason you moved to this area?



<sup>49</sup> Household survey question four: ‘Are you living in your home area, or have you moved from your home area to this location since 2015?’

<sup>50</sup> IOM-DTM, *Yemen - Rapid Displacement Tracking Update (15 Dec.–21 Dec.)* 24 December 2019. The total number of households in Yemen was estimated at 3,533,430 in 2013: <https://knoema.com/atlas/Yemen/ranks/Number-of-households>

<sup>51</sup> Household survey question four: ‘Are you living in your home area, or have you moved from your home area to this location since 2015?’

<sup>52</sup> Household survey question five: ‘What is the reason you moved to this area?’

There is division in incentives for displacement between those that live in Dfa and IRG areas. In IRG areas, most displaced families moved to flee trouble (30 out of 53 households). By comparison, in Dfa areas, most moved for economic reasons (48 out of 92 households). Please note that this analysis is indicative only as the response rates are not statistically relevant. Nevertheless, this response pattern paints a picture of families in Dfa areas making decisions on where they live more for economic than security reasons; and hence that the wider economic environment and ability to earn an income is harder in Dfa areas than in IRG areas.

# 4 Funding the conflict

**This section explores how economic resources** are directed towards fuelling the conflict and the economic drivers that lead to Yemenis participating in fighting. How are national and local conflict parties leveraging economic resources? What types of economic resources are they leveraging? What impact is this having on the civilian economy? What incentives are provided for Yemenis to participate in fighting?

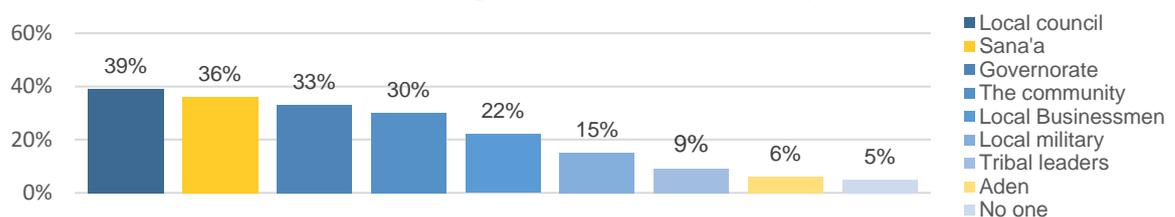
The Dfa has established a collective extraction model for personal gain and to fund the war effort. The IRG does not have the same model but is instead suffering from high levels of corruption. Security forces are stepping into the gap left by the IRG and are starting to interfere in the economy in IRG areas. Poor levels of income are the main incentive for young men to fight, especially in IRG areas.

- **Dfa is exerting most influence in the economy:** Income from the economy accrues and can be pushed towards military purposes at different levels (e.g. local government, governorates or political actors). The Dfa are most successful: 72% of Dfa Yemenis think that businesses in their area are controlled by Dfa, while only 11% of IRG Yemenis think the same about the IRG. Local councils and governorates play a similar role in IRG areas, although less successfully (54% and 46% respectively).
- **Dfa has established a collective extraction model:** Dfa is controlling local businesses through a consistent process of economic interference, including: (1) direct takeover of profitable enterprises; (2) creation of monopolies under direct control or regulatory demands against competitors; and (3) payment demands – through an internal customs area and irregular taxes. This means that the Dfa has multiple revenue streams to fund the war in addition to any rent earned through black market practices.
- **Individual political corruption and security group interference in IRG areas:** Individual figures in the IRG have successfully accumulated personal wealth, as pre-war corruption has persisted. However, the IRG is not systematically earning rent to fund the war effort. Security groups are benefiting from the resultant ‘regulatory space’ to earn rent, including creation of protection rackets (e.g. for gas infrastructure and small businesses) and takeover of property for rental income. While security groups are not yet directly control businesses in IRG areas, there are moves in this direction.
- **Earning income is the primary incentive for joining the fight:** The need to earn an income is the main driver for people to join security forces. This is especially the case in IRG areas, with 56% of IRG respondents stating the lack of opportunities drive men to join armed groups, compared to 30% in Dfa areas.

## 4.1 Political control Dfa areas, local control in IRG areas

Yemeni household respondents were asked to identify who regulates small businesses in their community or local area.<sup>53</sup> This question is used as a proxy for understanding the relative success of national and local actors in controlling local businesses, and hence their ability to accrue resources from them for personal gain, to fund the conflict or to distribute for political legitimacy. There is a degree of ambiguity in this question as ‘regulation’ in a protracted conflict can refer to administrative measures that would occur in a peaceful society, or to political manipulation that would not occur in peacetimes (notwithstanding corruption and other forms of personal rent seeking by powerholders). Thus, the difference between rents and typical revenues are hard to disentangle in this survey.

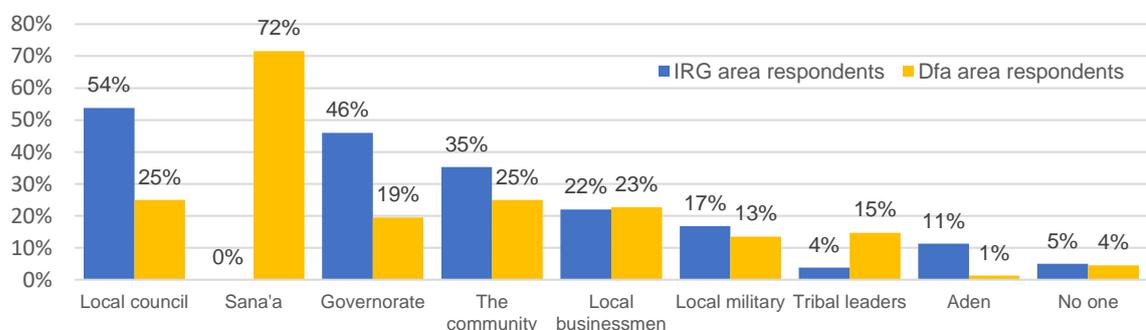
Graph 16: Who regulates small businesses in your area?



Responses demonstrate that the Dfa is having considerable success in controlling local business, with 36% of household respondents stating that businesses in their local area are regulated from Sana'a. By contrast, the IRG does not appear to directly control businesses, with only 6% of households identifying the Aden authorities as playing a role in regulation. Generally, however, local government is most able to control businesses: 39% of household respondents state that local councils regulate businesses in their areas, while 33% stated the same with regards to governorates.

The difference in the level of control exerted by the Dfa and the IRG becomes stark when comparing responses from households in the areas they control. Some 72% of household respondents in Dfa areas state that local businesses in their area are controlled from Sana'a, compared to 11% in IRG areas that stated the same about Aden. By contrast, households in IRG areas are more than twice as likely as those in Dfa areas to state that their governorate (54% compared to 25%) or local council (46% compared to 19%) maintain regulatory control over local businesses.

Graph 17: Regulation in Dfa and IRG areas



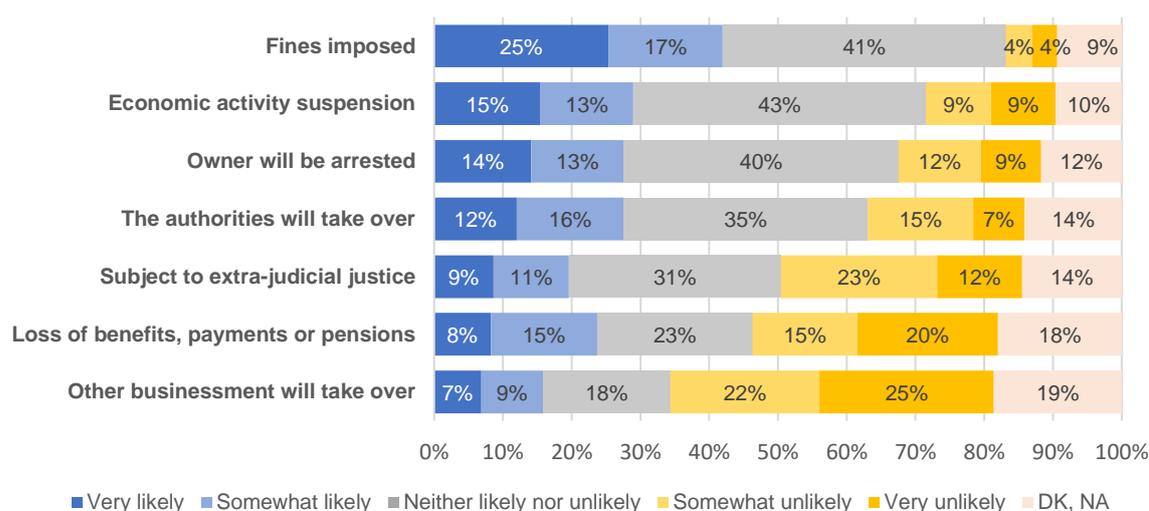
<sup>53</sup> Household survey question 20: 'Who regulates small businesses in your community?'

These findings demonstrate three important aspects of the conflict economy: (1) the gains from regulating businesses can accrue at different levels depending on the local context; (2) the Dfa has succeeded in leveraging a large degree of influence over businesses in the areas it controls; and (3) local government in IRG areas is more autonomous of political authorities when it comes to working with businesses, than local government in Dfa areas. This autonomy could be a sign of a healthy regulatory environment, where responsibilities are devolved to the local level. It could also demonstrate the relative weakness of the IRG as a central authority, with other local actors filling the space of government regulation, and hence with a resultant ability to earn rent from local businesses in place of central authorities.

## 4.2 Collective extractive model for rent in Dfa areas

Household respondents were subsequently asked to describe the mechanisms of control exerted over local businesses, in the case that local businesses refuse to comply with the regulatory efforts of the controlling authority.<sup>54</sup> The most likely measure is the imposition of fines, with 42% of household respondents viewing this as a somewhat or very likely measure. The next most likely measures suspension of economic activities (28% somewhat or very likely), for the business owner to be arrested (27%) or takeover of the business in question (28%).

Graph 18: Measures to control businesses



The imposition of fines or business takeover are much more likely to occur in Dfa areas than IRG areas: 51% of households in Dfa areas consider fines to be very or somewhat likely, compared to 33% of IRG households. Similarly, 36% in Dfa areas consider takeover of the business by the authorities to be very or somewhat likely, compared to 19% in IRG areas. This may indicate that the Dfa has established a relatively sophisticated extraction model of earning rent from business. The 'imposition of fines' can include irregular taxes or levies on businesses. The takeover of business can be used to ensure that the economic resources of that business are made directly available to the Dfa. These resources can then be directed for personal gain of individuals inside or linked to the Dfa, to resource the conflict or for redistribution in order to enhance political legitimacy.

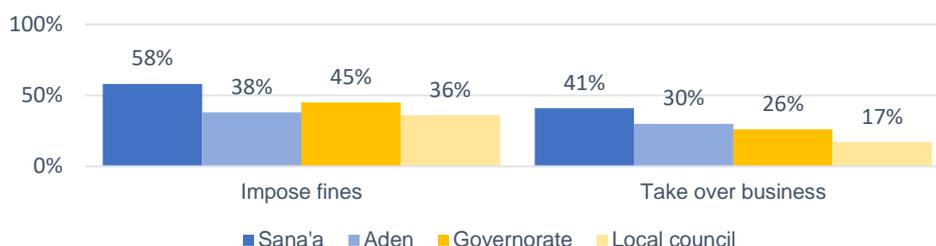
<sup>54</sup> Household survey question 21: 'If a small business were to refuse to comply, how likely would they face each of the following consequences?'

### Box 5: Use of violence to take over businesses

While less likely to happen, it is worrying that 20% of respondents believe that control would be enforced through extra-judicial threats or killing. Those in more developed areas and low-violence context on both sides of the political divide are at most risk of such actions: 33% of household respondents in more developed low-violence Dfa areas, and 35% in IRG areas, viewed extra-judicial killings as a likely or very likely outcome of a dispute between the regulatory authority and local businesses. This demonstrates that relevant authorities are taking much stronger and more violent approaches to take over of businesses in the urban environments and where their control is not challenged by ‘the other side’.

This analysis is reinforced by a deeper exploration of responses by those who indicated that businesses in their local area are regulated by the Dfa: 58% of Dfa respondents believe that fines are somewhat or very likely, while 41% believe the same for business takeover. This is much higher proportion than for those who identified Aden, governorates or local councils as regulating local businesses. The perception of Sana’a expropriation of business is much higher, in other words, than it is for any other regulatory actor.

Graph 19: Analysis of measures by regulatory actors



This analysis is further reinforced by Dfa focus group participants and interviews, who pointed to: (1) direct takeover of businesses by the political authorities in Sana’a; (2) the creation of Sana’a-dominated monopolies or regulatory demands against competitors; and (3) increasing payment demands through secondary custom duties and irregular taxes. Those types of business enterprise that are most successful in the Dfa areas are most likely to suffer from interference by the authorities. For example, Dfa focus group participants stated that the owners of petrol stations and money exchange are most at risk from harassment and extortion or have been shut down.<sup>55</sup> Dfa focus group participants also suggested that business owners that expressed support for the IRG are also at risk from takeover or being closed. Finally, interviewees explained how threats and example punishments are used to compel businesses to provide rent. For example, the Dfa has imprisoned some leading money exchange businesspersons for not adhering to Dfa rules regarding restrictions on new bank notes and for not making sufficient contributions.<sup>56</sup> The following examples were provided by Dfa focus group participants:<sup>57</sup>

- **Direct takeover:** The Dfa has taken over institutions and commercial companies suspected of association with the businessman Hamid al-Ahmar, who is perceived to be an al-Islah member. In Amran Governorate, the Dfa appointed supervisors to the Al Boun Cooperative

<sup>55</sup> Dfa focus group discussion, Al Thawra, more educated, December 2019.

<sup>56</sup> International validation interview, February 2020.

<sup>57</sup> Unless otherwise stated, examples from: Dfa focus group discussion, Shu’aub, young people up to the age of 40, December 2019; Dfa focus group discussion, Ma’een, businesspersons, December 2019; Dfa focus group discussion, Al Thawra, more educated, December 2019.

Farm for Milk as a way of securing its resources. The fear of takeover has also led some businessmen to sell-up and move out of the Dfa: “Because of armed conflict, there are changes in ownerships of companies and business, since there are many of them loyal to the legitimate government or to the Al-Mo'tmar Party, they decided to sell out of fear that their business would be confiscated by Ansar Allah or due to the harassment that they faced”.<sup>58</sup>

- **Monopolies and regulatory demands:** The government company ‘Yemen Mobile’ was described as having established a monopoly over internet services with support from authorities. This is at the expense of MTN and SabaFon, which were described as facing procedural and marketing restrictions.
- **Secondary customs duties and irregular taxes:** The Dfa has established an ‘internal customs area’ to compensate for lost revenue from excise duty on goods imported through land borders and airports. This means that businesses in Dfa areas must pay double customs for any imported goods, once to the authorities in Aden and then subsequently to the authorities in Sana’a: “When imported merchandise moves through one of the ports controlled by the recognised government the businessmen pay the legal taxes. But when the merchandise is transported to the governorates controlled by the Houthis, another tax is imposed which makes for double taxation”.<sup>59</sup> The Dfa also targets profitable businesses with irregular taxes. Tax rates are not fixed and appear arbitrary (they can exceed 200%), as it was stated there is no law in place to define their amount and when they should be paid. Participants complained that such taxes are collected randomly, and little consideration is given to a businesses’ circumstances, meaning that is hard to plan for them and enough capital may not exist to pay them. Indeed, non-payment could be used as a rationale for direct take over: “Companies being extorted by the de facto government in Sana’a to pay large amounts of money in so-called taxes; otherwise those business will be closed or taken over by the Houthi’s allies”.<sup>60</sup> Some ad hoc taxes are described as having the purpose of either funding public celebrations of specific military actions.

Interviewees emphasised that: (1) the model of extraction, both from businesses and from the black market practices described in the previous section, are conducted collectively by the Dfa; and (2) that while people in the Dfa have benefited personally from extraction, a significant proportion of this money is directed towards the military effort. For example, Dfa officials are believed to have benefited personally from creation of a monopoly over the sale of medicine in Dfa areas and from takeover of local energy businesses. Interviewees pointed to the black market in cooking gas as having the primary purpose of funding the war effort, as well as military commanders demanding that banks and money exchanges make payments direct to their soldiers.<sup>61</sup>

Some interviews discussed the importance of collective action by businesspersons to influence political and legal authorities. This was especially the case in Dfa areas, where it was recommended that businessmen should unionise to present a collective front on issues such as secondary custom duties and taxation; even though it was recognised that to do so would bring personal and business risks.<sup>62</sup>

### 4.3 Corruption and security interference in IRG areas

The research findings demonstrate that businesses in IRG areas have managed to remain relatively independent of political authorities in Aden. Focus group participants and interviewees from IRG

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<sup>58</sup> Dfa focus group discussion, Al Thawra, more educated, December 2019.

<sup>59</sup> IRG area interviews, December 2019.

<sup>60</sup> IRG area interviews, December 2019.

<sup>61</sup> International validation interview, February 2020.

<sup>62</sup> Dfa area interviews, December 2019.

areas referenced a range of state and local taxes they are required to pay but stated there are no direct attempts by the political or local authorities to gain additional rent from them. Indeed, in some cases, local businesses have not been requested to pay taxes for several years. This is partly because of weak regulatory processes, as the IRG has had to create itself from scratch since 2015.<sup>63</sup> Poor regulatory processes were described as most evident in conflict-affected areas such as Taiz. Relatively low levels of rent seeking from businesses by the IRG might also be due to lower incentives for the IRG to find the money for the war effort, with funding for security forces provided by KSA and the United Arab Emirates (UAE) since 2015.<sup>64</sup>

It should be noted that while the IRG has not established collective rent extraction from Yemeni businesses, focus group participants and interviewees pointed towards high levels of individual corruption inside the IRG, with officials believed to have abused the public budget and their influence for personal gain: “The [Aden] port and airport revenues are exploited by individuals and no money is deposited into the government’s coffers. In addition, they do not invest the revenue in the local economy but instead in foreign businesses that make a greater profit for them”.<sup>65</sup>

IRG focus group participants and interviewees also stated that security forces’ interference in the economy is growing, with a range of measures in place to earn rent from businesses. For example, they suggested that security forces had taken on ‘protection’ roles at gas fields, pipelines, refinery and distribution points that are akin to rent. In addition, armed groups have taken over governmental facilities to exploit them and lease them for income, which is especially the case in the Crater area of Aden. Armed groups have also threatened merchants and petty traders to collect protection money. This is especially the case for small businessmen from northern governorates trading in Aden.

That said, only 17% of IRG household survey respondents identified security forces as playing a regulatory role over local businesses, compared to 54% who identified local councils. Indeed, focus group participants or interviewees struggled to identify examples of direct military control of businesses, along the models established in Egypt, Syria and Libya. However, there are some warning signs that this could occur. For example, the Al Mansoura Cooperative Market in Aden was confiscated and is now controlled by an armed group.<sup>66</sup> These findings indicate that while security forces in Dfa areas are not yet dominating the economy, they are starting to take the initial steps that will allow them to do so in the future; and that this is being enabled by the inability of the IRG to project its authority on both security and economic matters.

## 4.4 Young men join the fight to earn money

The main driving force for participation in the war efforts is access to income, with 67% of household respondents believing this to be the main reason, followed by lack of opportunities (45%) the political ambitions of political actors (33%) and belief in the cause (29%).<sup>67</sup> All other options were selected by less than 30% of household respondents. The importance of the economic drivers of participation in the war demonstrate that: (1) fighting is one of the main opportunities open to young men to earn an income (see section 2 ‘Opportunities in conflict’); and (2) political actors are able to mobilise relatively high poverty rates in support of their war effort, by providing payments and other forms of benefits to those most in need. The result is that parts of Yemeni society, especially in IRG areas, are becoming dependent on security salaries. This in turn provides incentives for continuation of the conflict: “Due to lack of job opportunities, many youths join militias,

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<sup>63</sup> International validation interview, February 2020.

<sup>64</sup> International validation interview, February 2020.

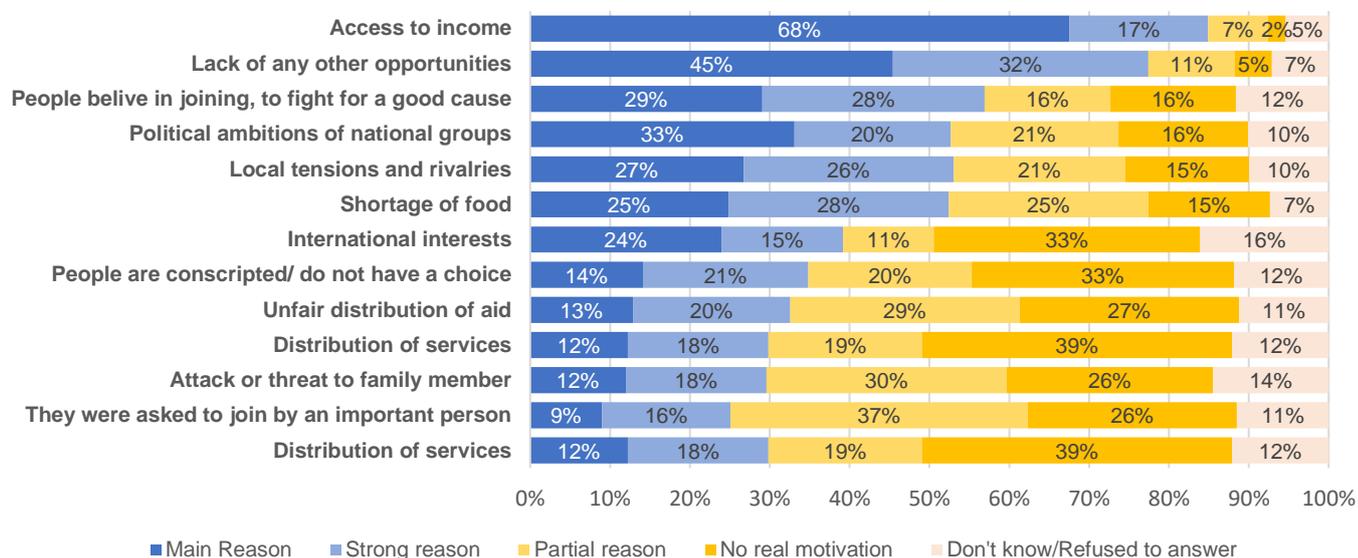
<sup>65</sup> IRG area interviews, December 2019.

<sup>66</sup> IRG area interviews, December 2019.

<sup>67</sup> Household survey question 24: ‘There are many people in armed groups including the military in the country, at this point. Why do you think people from your region get involved in fighting?’

either government aligned, funded by the Coalition, or of the Houthis. This is in the hope of receiving a salary to support their families”.<sup>68</sup>

Graph 20: Why do people get involved in fighting?



Reference to economic drivers for becoming involved in fighting is more prevalent in IRG areas than in Dfa areas. For example, 56% of IRG area household respondents identify a lack of opportunities as the main reason for young men to join the military or armed group, compared with 30% of respondents in Dfa areas. Similarly, 79% of IRG area household identify the need to earn an income as the main reason, compared to 56% in Dfa areas. This analysis is reinforced by the findings (see section 2 ‘Opportunities in conflict’) that security employment is growing in IRG areas as it is viewed as the best path to earning income for young men.

By contrast, 41% of respondents in Dfa areas are more likely to attribute going to fight to political ambitions and 30% due to belief in the cause, compared to 25% and 28% respectively in IRG areas. Income is still an important driver for Dfa young men to join the fight (30%), as demonstrated by the focus group discussions: “After the war, the situation changed and recruitment to the fighting fronts became the only available job in my community”.<sup>69</sup> The focus group discussions also demonstrate that joining the Dfa’s forces gives people access to other benefits such as foreign currencies, family support, access to government funds and transportation allowances.<sup>70</sup> Indeed, families without fighters are at risk of being excluded from important social benefits and earning opportunities: “Families who do not participate in the fighting do not receive places in public universities compared to those involved in hostilities, especially for families whose members were killed and injured. They also do not receive humanitarian assistance coordinated through armed groups”.<sup>71</sup> Such families are also at risk of being targeted by the authorities: “Families who do not have a martyr or any members on the front line are focused on as if they were on a blacklist”.<sup>72</sup> Finally, the focus group discussions highlighted the use of conscription to recruit fighters in Dfa areas. For example, one participant described how his neighbour and two of his sons were conscripted despite the fact they are not Houthis or Shia.<sup>73</sup>

<sup>68</sup> IRG are interviews, December 2019.

<sup>69</sup> Dfa focus group discussion, Shu’aub, young people up to the age of 40, December 2019.

<sup>70</sup> Dfa focus group discussion, Ma’een, businesspersons, December 2019.

<sup>71</sup> Dfa focus group discussion, Ma’een, businesspersons, December 2019.

<sup>72</sup> Dfa focus group discussion, Shu’aub, young people up to the age of 40, December 2019.

<sup>73</sup> Dfa focus group discussion, Al Thawra, more educated, December 2019.

# 5 Creating legitimacy

**This section explores the measures** that are taken by authorities to enhance their legitimacy by distributing economic resources to demonstrate their value – whether for security or critical services, including humanitarian needs. What are the principal steps being taken by authorities to enhance their legitimacy, and to what degree do these steps rely on economic incentives? How legitimate are political actors perceived to be by local communities in Yemen?

No institutions have a positive trust rating among the Yemeni public, with only local security forces and local government receiving a neutral rating and only in IRG areas. Dfa control of economic resources is not translating into investments in community needs so as to build public legitimacy. International organisations hold most legitimacy, while relationships with tribal groups in Dfa areas, and with local authorities in IRG areas, can help.

- **Trust is absent, except for security forces and local government in IRG areas:** No Yemeni actor is trusted by the public to improve Yemen's future, with all actors receiving less than a neutral trust rating nationally (3.0 out of 5.0). The only actors that received an above neutral score are local security forces, the local council, relatives and governorates, and only in IRG areas. Security forces in IRG areas had the highest trust rating of all actors (3.36).
- **Economic resources have not been used to reinforce public legitimacy:** While the Dfa have established a collective extraction model for personal gain or war purposes, they have not yet used it to enhance their public legitimacy. The IRG has also made no progress in persuading Yemenis that it is willing and able to deliver critical services.
- **International organisations are winning legitimacy:** International organisations are winning legitimacy through by delivering critical services, especially in IRG areas. Relationships with international organisations are also thought of as critical for accessing income and food: 70% of Yemenis feel that it is easier or somewhat easier to find income or get food if they know someone in an international organisation. While they may have public legitimacy (in that they are viewed as most relevant) international organisation suffer from the same trust gap as all other actors.
- **Tribal leaders are relevant nationally, and local authorities in IRG areas:** Tribal leaders are seen to play a consistent role in delivering security and in providing services. This gives them a unique level of national legitimacy. Local authorities are considered relevant for services in IRG-held territory and holding relationships with such actors can help Yemenis gain income and food in these areas.

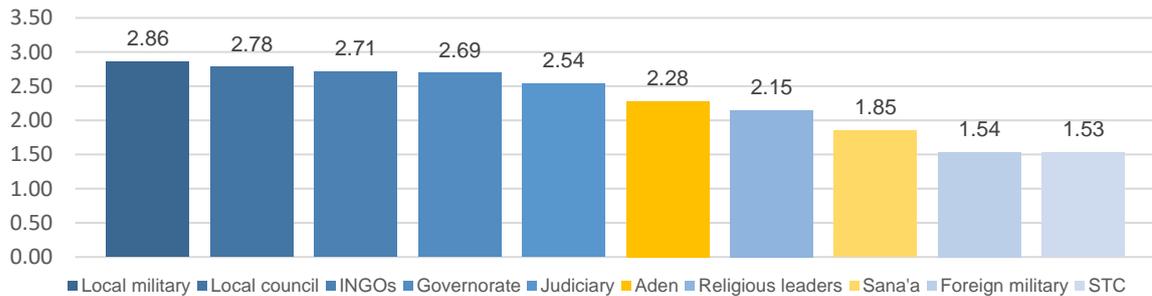
### Box 6: Measuring legitimacy – Salaries, Services and Security

This study takes a three-part approach to understand legitimacy in the Yemeni context. First, it asks questions about the extent to which respondents attribute service programmes for food and cash aid and health and education services to specific parties, such as local and international organisations, and local, governorate and national governing bodies. Second, the study included questions to capture perceptions of acting authority and use of coercive force. For example, do household respondents turn to local councils, governorates, national or external authorities to manage personal conflict? Which authorities do respondents think collect taxes and regulate business? Combined, this approach focuses on the ‘Salaries, Services and Security’ aspect of legitimacy. Third and equally important, the study asked about general perceptions of trust in key parties’ ability to improve Yemen’s future.

## 5.1 Local institutions are trusted over national

Household respondents were asked to what degree they trust a range of institutions to improve Yemen’s future.<sup>74</sup> The responses show that all institutions are distrusted, and no single institution or set of actors received even a neutral assessment nationally (marked by a score of 3.0 out of 5.0). In most protracted conflicts, as trust in formal institutions dissolves, people turn to their family and traditional networks for support, with a resultant increase in trust towards these groups. This is not the case in Yemen, as even traditional leaders failed to get a neutral assessment. Nationally, Yemenis trust the STC and international militaries the least.

Graph 21: Trust in groups to improve Yemen's future  
3.00 indicated neutral trust, 5.00 high trust



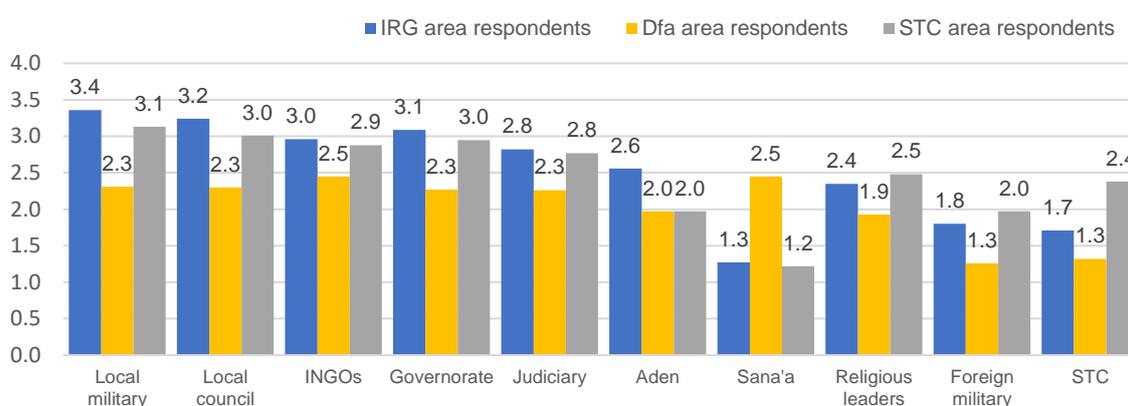
In general, the Dfa is less trusted at the national level across Yemen than the IRG (1.85 for Dfa, and 2.28 for IRG). As would be expected when comparing IRG and Dfa household responses, the IRG is less trusted in Dfa areas and more trusted in IRG areas (although still lower than a neutral assessment at 2.56). Similarly, the Dfa is less trusted in IRG areas and more trusted in Dfa areas (tied at the highest trust level of 2.45 with international organisations, but still lower than a neutral assessment). In fact, across the board, residents of Dfa areas trust no institutions to improve Yemen’s future. This perhaps in part due to the finding that perceptions of the quality of service delivery are lower in Dfa areas than IRG areas (see section 5.4 below).

<sup>74</sup> Household survey question 25: ‘To what extent do you trust the following institutions to improve Yemen’s future?’

It is also notable that trust is slightly higher in IRG areas, with four institutions managing to achieve higher than a neutral assessment: local military (3.36) the local council (3.24) relatives and families (3.24) and the governorate (3.09). Respondents in STC areas reported higher levels of trust in the STC (2.38), religious leaders (2.48), and foreign militaries (1.97) than either the mean response in Dfa areas or the IRG average (which includes STC respondents). Overall, these findings demonstrate Yemenis lack trust in political institutions, putting greater trust in local institutions to create stable futures for themselves. They also reinforce the growing role of security actors in IRG areas.

**Graph 22: Trust in groups to improve Yemen's future**

3.00 indicates neutral trust, 5.00 high trust



## 5.2 Tribal leaders have legitimacy on conflict and violence

Respondents were asked who they are likely to turn to if facing local conflict or violence.<sup>75</sup> This question is used as a proxy to understand the ability of Yemeni political, local and traditional authorities to project their influence into communities on security and justice. This in turn acts as an indicator to how much 'legitimacy' these actors hold on such issues at the community level. The form of legitimacy explored here is relevance, as measured by ability to respond to community needs, rather than having legal or democratic legitimacy, legitimacy enforced through power or levels of citizens' trust.

When asked who they would turn to for support in relation to conflict and violence threats, household respondents prioritise local actors. Household respondents indicated that they are most likely to turn to tribal leaders in order to manage a conflict or violence-related issue, with 49% stating they are likely or very likely to turn to tribal leaders. This proportion increased to 82% when including those households that said it is 'possible' they would turn to tribal leaders (rather than being likely or very likely). The important role of tribal leaders was affirmed in the focus groups: "Tribal custom is the solution to resolve some disputes better than through the courts".<sup>76</sup>

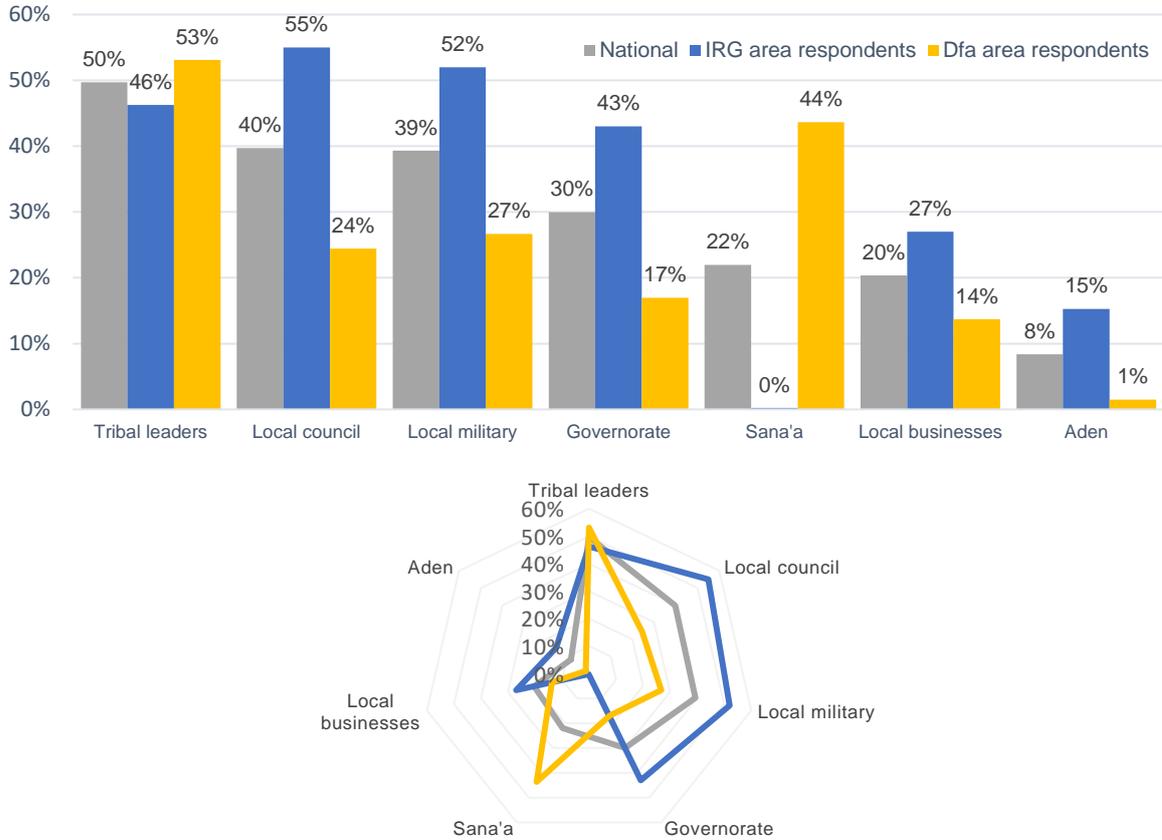
The second most likely actor that households would turn to are local councils (40% likely/very likely, 74% including 'probably' responses) local military actors (39%, 63%) and governorates (30%, 69%). The STC is perceived to be least able to assist resolution of such issues, with 74% of household respondents stating they are very unlikely to turn to the STC, and only 5% responding positively.

<sup>75</sup> Household survey question 16: 'If you had a serious conflict, including violence, in your neighbourhood, who likely would you turn to the following for effective resolution of the issue?'

<sup>76</sup> Dfa focus group discussion, Shu'aub, young people up to the age of 40, December 2019.

**Graph 23: Who do Yemenis turn to to manage conflict?**

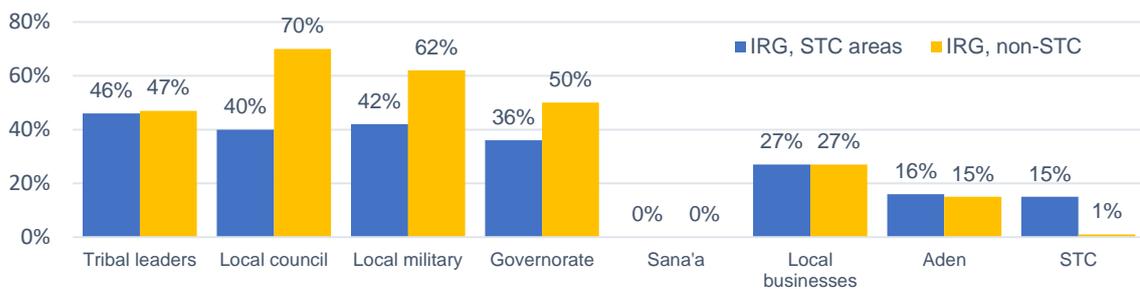
Very or somewhat likely responses



Unsurprisingly, Yemenis who are more likely to support the STC are also more likely to turn to the STC for help with regards to conflict or violence: 15% of respondents in areas that are likely to have higher levels of support for the STC said they would turn to the STC, compared to only 1% in areas that are less likely to be supportive of the STC. Importantly, pro-STC constituencies, are also less likely to turn local authorities: for example, only 40% of respondents in areas likely to be more support of the STC said they would turn to the local council, compared to 70% in other IRG-held areas. This might demonstrate that support for the STC is driven by a perceived failure of local authorities to manage critical needs facing the Yemenis.

**Graph 24: Who do IRG residents turn to? STC vs. Non-STC**

Very or somewhat likely responses



### Box 7: Defining tribal leaders and their political allegiance

'Tribal leaders' is a broad category that can encompass a range of bodies and individuals. It can refer to committees of elders (*shura*), individual influential tribal figures, or semi-governmental representatives such as the *mushraf* (organisers) and *aqel al haras* (community leaders). Tribal leaders can play a role in other institutions, for example, as elected representatives in local councils, as military leaders or as businessmen. As such, when Yemenis refer to tribal leaders, they can conflate their roles as tribal representatives and elected or military representatives (International validation interview, February 2020). It is also important not to view tribal leaders as apolitical and outside the sphere of influence of political authorities. Both the IRG and Dfa can assert themselves at the local level through tribal structures. For example, in Dfa areas, the *shura* have been side-lined by the Dfa in favour of *mushraf* who are squarely aligned with the Dfa. It is also argued that the Dfa projects its influence through networks of tribes that have their origin in Sa'dah and are hence closely aligned with the Dfa (International validation interview, February 2020).

Whom Yemenis rely on to address conflict and violence varies substantially between Dfa and IRG areas. While tribal leaders are still important in Dfa areas (53%), Sana'a is the second most likely actor for Yemenis in these areas to turn to (44%). Only 15% of respondents in IRG areas said the same for Aden. Instead, Yemenis in these areas are most likely to turn to local councils (55%) and the local military (52%), with tribal leaders the third most likely actor (46%). This discrepancy emphasises the centralisation of authority in Dfa areas, and the strong role that Sana'a is seen to play there, as well as the limited role of Aden in IRG areas and the resultant reliance of Yemenis living there on local authorities to meet their security needs. Perhaps most importantly: (1) the results provide evidence of the strong role of the security forces in IRG areas; and (2) tribal leaders are the only actor consistently given a role on conflict and violence across all research areas.

## 5.3 Manipulation of aid does not enhance legitimacy

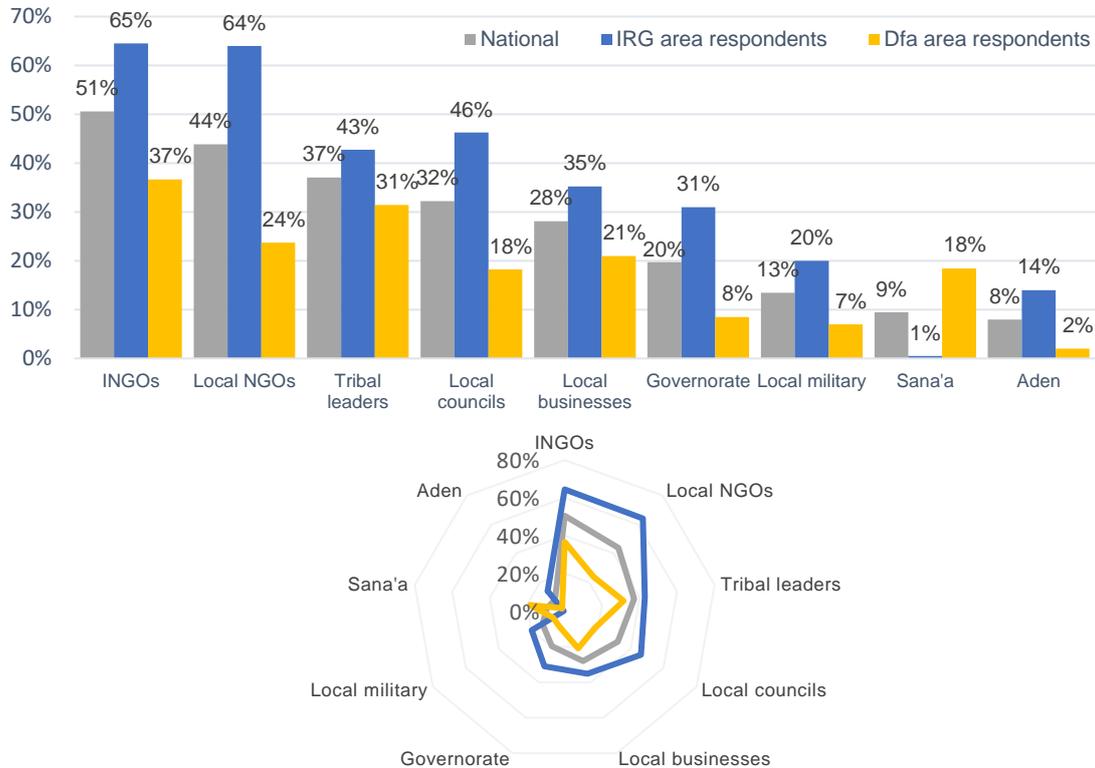
Household respondents were also asked who they are likely to turn to secure food aid. This question is used as a proxy to understand the ability of Yemeni political, local and traditional authorities to project their influence into communities by being seen to meet humanitarian needs. Responses provide an additional guide to the legitimacy that these actors hold at the community level. This proxy indicator is important as there is a concern among international organisations and donors that their aid is being manipulated, both to fund the war effort and by conflict actors to enhance their legitimacy at the community level. This fear pertains in particular to the Dfa.

The survey results demonstrate that, if they have been attempting to divert aid in order to enhance their legitimacy, the IRG and Dfa have been unsuccessful. Yemenis are very unlikely to turn to the Sana'a or Aden for their food aid needs, demonstrating that neither are viewed as having much influence over aid and its delivery. Instead, Yemenis are most likely to turn to international organisations for food aid, with 51% stating that they are likely or very likely to do so, rising to 77% for respondents selecting 'probably'.<sup>77</sup> The next most likely group that households would turn to is local national organisations: 44% likely/very likely, rising to 74% including 'probably' responses. Sana'a, Aden and the STC are again seen to be mostly irrelevant for food aid, with 9% stating they are likely/very likely to turn to Sana'a, 8% stating the same for Aden and 4% for the STC.

<sup>77</sup> Household survey question 17: 'If you needed help getting food aid or cash-for-food, how likely is it you would you turn to the following?'

**Graph 25: Who do Yemenis turn to for food aid or cash-for-food?**

Very or somewhat likely responses



Yemenis in Dfa areas are not that likely to turn to any of the options for food aid, compared to their counterparts in IRG areas. For example, 65% of IRG respondents would turn to international organisations, compared to 37% in Dfa areas; and 46% of IRG respondents would turn to local councils, compared to 18% in Dfa areas. This may indicate a general despair in Dfa areas on Yemenis' ability to source food for themselves and their families, and that no one is well placed to help in this endeavour.

It should be noted that the type of legitimacy conferred to international organisations is that they are able to deliver against needs. This does not equate to public trust. Indeed, interviewees underlined the low levels of public trust in international organisations in many Yemeni constituencies.<sup>78</sup> This negative perception is sometimes driven by anti-aid propaganda from politicians, and religious and tribal leaders. Further, tribal leaders again provide an important resource for food aid across the country, similar to the role they play on security and justice. While those in IRG areas are still more likely to turn to tribal leaders than those in Dfa areas (43%, versus 31%), tribal leaders are the second most likely option for Dfa respondents after international organisations.

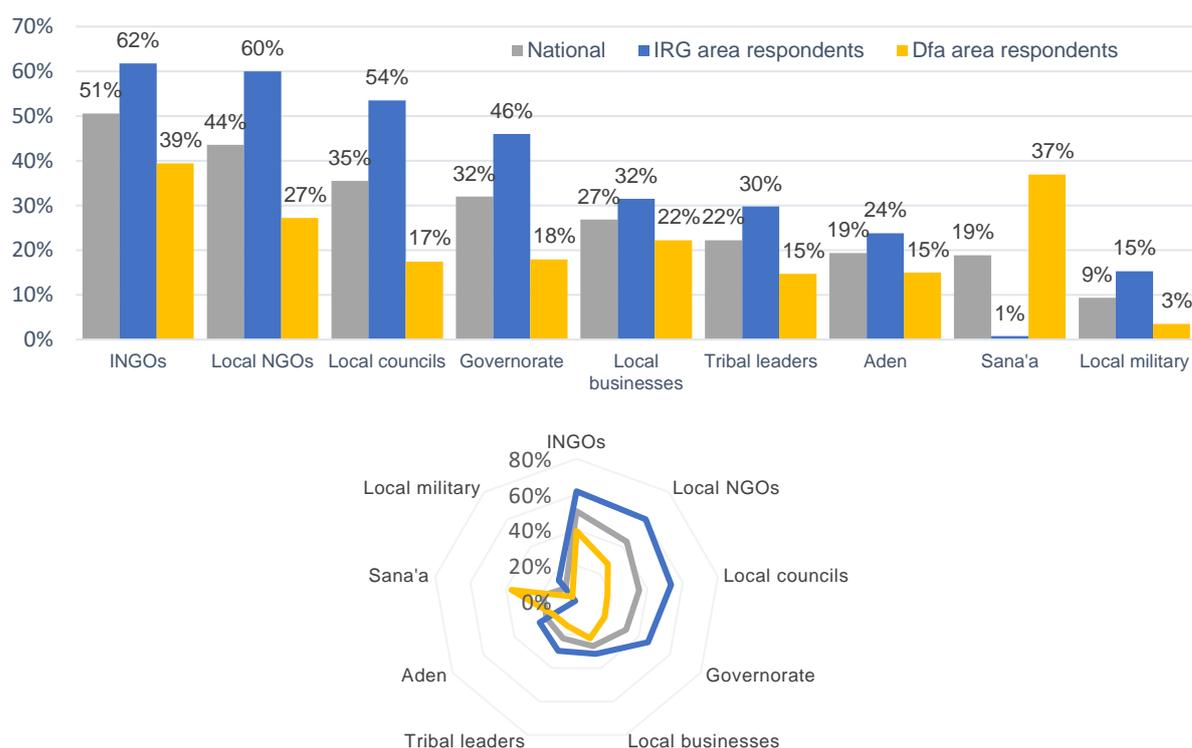
## 5.4 Aid agencies have legitimacy on service delivery

Respondents were finally asked who they are likely to turn to for their families' education needs. This question is used as a proxy to understand the ability of Yemeni authorities to project their influence into communities by being seen to deliver public services. Responses provide a fine guide to the level of legitimacy held at the community level.

<sup>78</sup> International validation interview, February 2020.

As the conflict has protracted, aid agencies have moved from delivering urgent humanitarian needs to greater involvement in national development needs. This is reflected in the survey findings on who Yemenis are likely to turn to if they are facing a challenge in educating their children, with the greatest proportion of household respondents stating they would turn to international organisations: 51% of respondents stated they are likely or very likely to turn to such organisations, increasing to 78% when including 'probably' respondents.<sup>79</sup> After international organisations, Yemenis are most likely to turn to local organisations (44% or 75% including 'probably' responses) followed by the local council (35% or 72%) and governorates (32% or 74%).

**Graph 26: Who do Yemenis turn to for their education needs?**  
Very or somewhat likely responses



Similar to food aid, there is a significant difference in response from Dfa and IRG areas. Yemenis in Dfa areas place greater emphasis on the role of Sana'a, with 37% of respondents from Dfa areas stating they are very or somewhat likely to turn to Sana'a for their education needs, second only to international organisations (39%). Yemenis in IRG areas are by contrast much more likely than their counterparts in Dfa areas to turn to local organisations (60%, compared to 27%), local councils (54%; 17%) and the governorate (46%; 18%). This further demonstrates the centralisation of authority in Dfa areas, and the localisation of authority in IRG areas as the government has failed to project its influence.

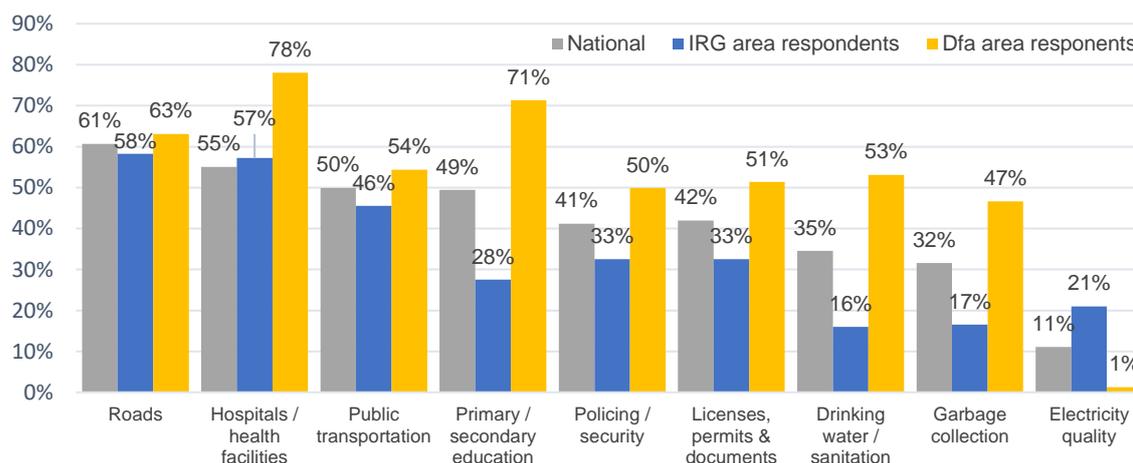
The relative low reliance on both Aden and Sana'a perhaps reflect the perceived poor state of services across the country, and especially in Dfa areas. Most services are perceived to be more poorly delivered in the Dfa areas than IRG areas. The discrepancy in services is most stark with education and health service delivery:<sup>80</sup> 71% of household respondents in Dfa areas perceive education to be poor or very poor, compared to 28% in IRG areas. Similarly, 78% of Dfa household respondents perceive health services to be poor or very poor, compared to 32% in IRG areas.

<sup>79</sup> Household survey question 18: 'To what degree do you think the following are contributing to children in your neighbourhood being educated?'

<sup>80</sup> Household survey question 12: 'In your opinion what is the overall quality of the following services in your community?'

Generally, services are perceived to be very poor, poor, or neither good nor poor across also service types, with less than 20% of respondents (depending on the service) rating services as good or very good, irrespective of where they live. Health, garbage collection and education provide important exceptions, with 30% of those living in IRG areas rating health services as good or very good (compared to 7% in Dfa areas), 27% doing the same for garbage collection (compared to 11% in Dfa areas) and 25% for primary/secondary education (compared to 8% for Dfa areas).

Graph 27: Services are poor or very poor



These findings demonstrate that while the Dfa has established a collective extraction model for personal gain and to fuel the war effort, resources are not yet being pushed towards services with the purpose of reinforcing legitimacy. This is a critical point as any move towards service provision by the Dfa would likely entrench their legitimacy and de facto independence from the IRG. The findings also demonstrate that the IRG has made no progress in persuading Yemenis that it is willing and able to deliver critical services; meaning that it is vulnerable to challenges to its authority both from the Dfa, but also from other competitors, such as the STC, governorates or security forces.

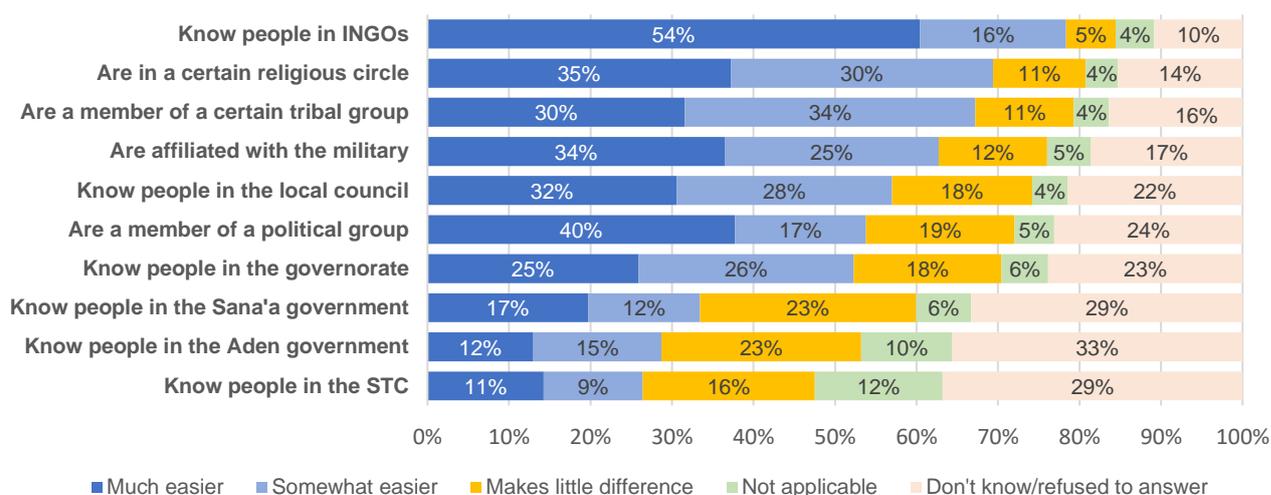
There is a discrepancy between the assessment of men and women as to the quality of some services. Women are more likely than men to view electricity provision (20%, compared to 8%), or policing (48%; 40%) as poor or very poor. Women are less likely than men to view education (35%; 54%), health provision (37%; 61%) and roads (48%; 65%) as poor or very poor. The rationale for this difference was not explored in the focus groups and hence is more difficult to identify.

It is a cause for reflection that international organisations are viewed as more credible education providers than central or local government, although the disparity between international organisations and local government is lower in IRG areas. This finding could be indicative of aid efforts reducing Yemeni authorities' credibility and legitimacy in the eyes of the public; or at least that actions by national and international organisations do not reinforce a belief that Yemeni authorities can and are able to deliver against the public's needs. Indeed, the focus groups and interviews demonstrated the critical importance that international organisations have taken on in Yemen, beyond humanitarian issues and increasingly in the domain of governance and service delivery: "In light of the war, the support provided by the state is very limited due to a lack of resources. Services are mainly provided by regional and international organisations, particularly in the fields of education, health and agriculture".<sup>81</sup>

<sup>81</sup> IRG area interviews, December 2019.

The risk that international organisations are replacing national institutions is further reinforced by the finding that Yemenis feel they are most likely to be able to earn an income or access aid if they know someone within aid agencies, compared to knowing people in any other influential group. About 70% of household respondents believe that it makes it much or somewhat easier to access income or food if they had relationships with people working in international organisations.<sup>82</sup> The perceived next most important relationships are with religious leaders (65%), tribal groups (64%), followed by the local council (60%), local military (59%) and political groups (57%). This sequencing of responses demonstrates the importance for many Yemenis of relationships with local authorities, whether formal local councils or informal tribal and religious leaders, over formal relationships with state representatives.

Graph 28: Who do you need to know to access income or food?



Holding relationships with the IRG is believed to be helpful by only 27% of households, while 29% believe the same about the Dfa. However, these findings should be interpreted with discretion, given the high number of respondents that stated they 'do not know' or refused to answer. This is partly due to the political nature of the questions and the sensitivities it aroused, with people more willing to rate actors they view as less political. However, it is also due to an inability to rate 'the other side', with households in IRG areas unaware of the importance of relationships with the Dfa in the areas it controls and vice versa.

## 5.5 Reliance on tribes and local authorities

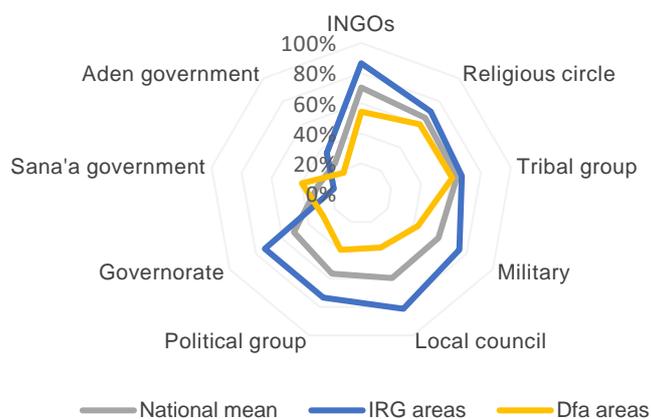
The nature of reliance changes significantly depending on whether Yemenis live in Dfa or IRG areas. In IRG areas, while international organisations are still the most useful group to know in order to gain income or food (87% of IRG respondents said such relationships made it much or somewhat easier), relationships with local formal authorities are also valued: 81% of IRG respondents said the same for local councils, 73% for their governorate and 73% for political parties. Informal local authorities are also believed to be important, with 71% stating relationships with religious groups help, and 67% stating the same for tribal groups. Importantly, relationships with the military are useful in IRG areas, with 75% of respondents stating they make gaining income or food much or somewhat easier (compared to 43% in Dfa areas). This reinforces the growing importance of the military in IRG areas, not just on security issues, but also for wider local governance.

<sup>82</sup> Household survey question 19: 'In your area, is it easier to access income and/or aid, if you...'

While relationships with formal local authorities are most important in IRG areas, informal actors play the same role in Dfa areas. Dfa respondents believe that relationships with tribal leaders are most useful for accessing food and income (61%), followed by religious groups (60%). These two relationships are believed to be more important than knowing people in international organisations (54%); reflecting the above findings that international organisations actions are less prevalent in Dfa areas. Across the board, all relationships, apart from with Sana'a, are believed to be less useful in Dfa areas than IRG areas, perhaps reflecting a greater sense of abandonment and hopelessness among Yemenis living there. Importantly, there is again a consistency in reliance on tribal groups across both Dfa and IRG areas, demonstrating that tribal groups play an important role across security and service delivery, including against humanitarian needs.

**Graph 29: Who do you need to know to access income or food?**

Much or somewhat easier responses



# 6 Building confidence

**This section explores the potential measures** that could build confidence across conflict divides and the role that the economy could play. It does so by asking: What opportunities are there at present to interact across conflict lines? What opportunities are being provided through business and other economic activities? How can these opportunities be better utilised? How ready are Yemenis to talk and do business with ‘the other’?

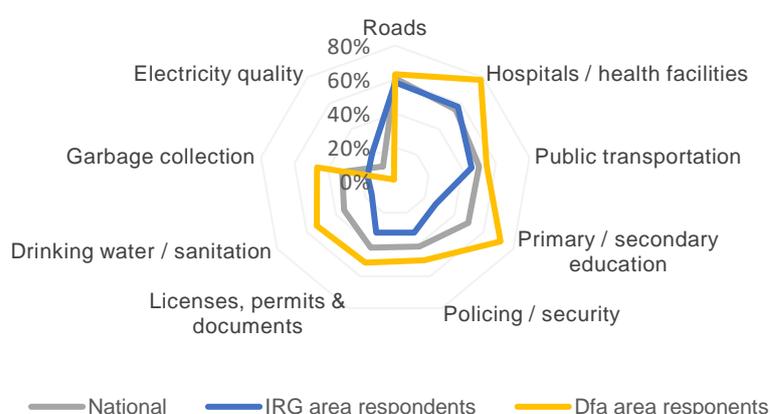
Impediments to movement are stopping Yemenis getting to school, work and the market to trade, as well as affecting businesses. As such, confidence can be built by reducing impediments to movement. Not all Yemenis maintain relationships across the divide, but are supportive of peace initiatives, especially practical initiatives. Businesses are uniquely placed to enable movement and practical initiatives.

- **Movement is a critical need for Yemeni families:** The state of the road network is judged to be the worst quality service in Yemen, with 60% of people thinking the roads in their area to be poor or very poor. Combined with poor public transport, a proliferation of checkpoints and regular security incidents, poor roads regularly prevent Yemenis from going to school (48% experience restrictions monthly), buying critical goods (also 48%), and getting to work (47%).
- **Movement is also critical for businesses:** Movement restrictions are also making it more difficult for businesses to transport goods, increasing their costs and resulting in more expensive consumer products. This means that measures to reduce restrictions would have the potential impact of building confidence, both among families and in the economy.
- **Limited cross-divide interaction, but support for practical initiatives:** Over 50% of Yemenis do not maintain relationships across conflict divides. Those that do, tend to have friendship and family links, rather than business or other practical interactions. Yemenis are still supportive of cross-divide initiatives, especially those that are seen to build confidence by delivering practical results. Initiatives that protect human rights or help deliver services have the most support.
- **Businesses are uniquely placed to promote peace locally:** Businesses have amassed a wealth of experience of how to negotiate conflict divides. They must do this daily in order to transport, trade and sell. They also maintain a unique web of ‘semi-customer’ relationships with political actors, local councils, communities and armed groups, all of which are essential for them to operate. Further, they have a track record of assisting local initiatives to reduce conflict and enhance resilience including facilitating local trade agreements, funding local education and health services, providing humanitarian assistance and negotiating movement.

## 6.1 Challenges for travel to school, work and the market

Yemenis view most public services as being of a poor standard and deteriorating (see section 5 'Creating legitimacy'). The service perceived to be of lowest standard and of highest priority nationally is the road network and road maintenance. Some 35% of household survey respondents state that their roads are of poor quality and 26% state they are very poor, cumulatively 61%. The poor state of the road network is followed by: hospitals and health facilities, 32% poor, 23% very poor (cumulatively 55%); public transportation, 30% poor, 20% very poor (50%); and primary secondary education, 36% poor, 14% very poor (50%). As noted in the previous section, a range of other services are perceived to be delivered more poorly if disaggregated by Dfa areas, with hospitals and health facilities of greatest concern for people living there.

Graph 30: Services are poor or very poor



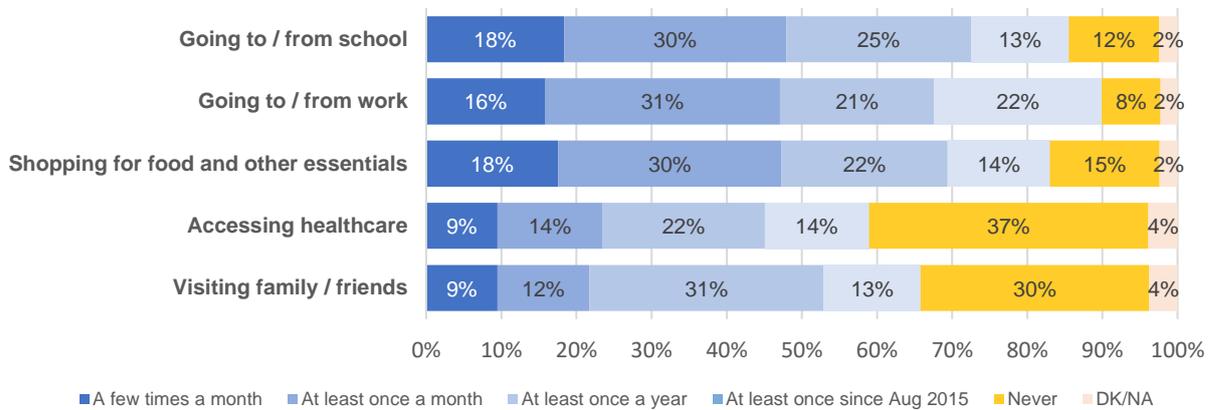
Perhaps unsurprisingly, poor road conditions are believed to be most problematic in under-developed areas and high-violence contexts. For example, 91% of household respondents in IRG areas that are less developed and suffering from violence perceive their roads to be either poor or very poor. This finding reflects the challenges in movement around Taiz and other areas along the front line between IRG and Dfa-aligned armed groups.

The fact that roads and public transport are the first and third most poorly delivered service nationally demonstrates the importance of movement for Yemenis. It is not just poor roads that prevent movement, but also conflict-related impediments such as fighting, the threat of violence or the installation of check points by armed groups. Both Dfa and IRG focus group participants regularly referenced the impact of security checkpoints on both business and ordinary human life.

The cumulative impact of both poor roads/transportation and conflict-related impediments is that Yemenis often cannot get to work, the market and school: 48% of household respondents state that their children are unable to travel to school more than once a month, 48% say the same for shopping for essential items, and 47% about getting to work.<sup>83</sup> Access to health care and visiting their family are less disrupted by restrictions to movement, although this may reflect the comparatively lower frequency of respondents attempting to reach health service providers or family members.

<sup>83</sup> Household survey question Q14: 'Since 2015, in terms of moving around in your community or further, how often has each of the following activities been prevented or interrupted by circumstances beyond your control?'

Graph 31: How much has the following been interrupted



Yemenis' ability to travel to school, work, or the market is more likely to be affected in Dfa areas. For example, 54% of those living in Dfa areas are prevented from travelling to work more than once a month, compared to 40% in IRG areas. By contrast, respondents' ability to access health care or visit families is more likely to be affected in IRG areas. For example, 47% of respondents from underdeveloped areas and low-violence contexts in IRG areas said they have never been prevented from accessing healthcare, compared to 77% of equivalent respondents in Dfa areas.

## 6.2 Travel restrictions impact businesses and livelihoods

The focus group discussions and interviews delved more deeply into the nature of the challenges to movement. First, roads, bridges, land routes and ports have suffered serious damage from the war, as well as not receiving investment in their maintenance. Second, fighting, the presence of armed groups and security restrictions has led to an increase in travel times or required people to take much longer routes. For example, armed violence in the Haradh region has led to the closure of the Al-Tawal port since May 2015. As a result, travellers and goods are forced to pass through the Al-Wadiyah port, which is twice as far from the main population centres. Also, closure of Sana'a's international airport had meant the suspension of postal services and commercial deliveries, making it harder to transport personal and business items.<sup>84</sup>

The focus groups and interviews also demonstrated that reduced movement has impacted on businesses and their profitability. Bad infrastructure, fighting and armed groups check points has resulted in new transport routes that cost much more time, effort, money and risk compared to previous routes: "The poor state of infrastructure and the weakened government and its inability to provide security makes it difficult to do business".<sup>85</sup> These impediments increase the cost of transportation, weaken the competitiveness of national products, especially for businesses in Dfa areas, and result in a higher cost for Yemenis: "Basic infrastructure is severely damaged in large parts of the country, including roads, bridges, airports and ports... [this], the movement of shipping operations from Sana'a to Aden, and the lack of security has increased prices by about 50% [in Sana'a] compared to other governorates".<sup>86</sup> Significant war-related costs for businesses include:

- **Double customs:** The need to pay double customs duties to Aden and Sana'a, if transporting goods into Dfa areas.

<sup>84</sup> Dfa focus group discussion, Ma'een, businesspersons, December 2019.

<sup>85</sup> IRG area interviews, December 2019.

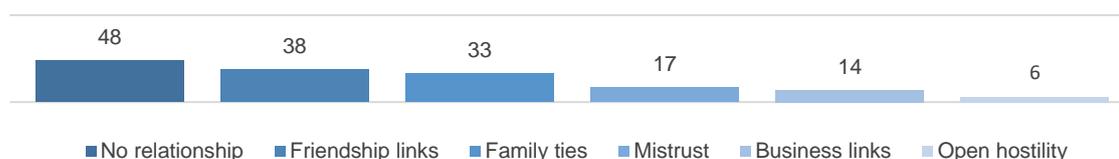
<sup>86</sup> Dfa area interviews, December 2020.

- **Check-point rents:** The risk of bribery at checkpoints along the cargo route. IRG focus group participants referenced the impact of such checkpoints on their income, as they must pay bribes or irregular taxes to pass, and hand over a portion of their goods. It was suggested that these rents do not always get transferred to local authorities but are kept by local militia groups.
- **Local taxes:** Local taxes are imposed by authorities through which cargoes pass. Many governorates and cities charge 'local development' fees which amounts to an additional customs duty.
- **Increased transport costs:** For example, as traders are reliant on Aden port, they must accept the higher costs resulting from the monopoly of the Heavy Transport Truckers Union over internal transport from the port.<sup>87</sup>
- **Port insurance costs:** In the event of direct sea shipments, Yemeni ports charge an additional insurance charges as a result of war risks of \$500 per shipment equivalent to a 20-foot container capacity and \$1,000 per shipment equivalent to a capacity of 40 feet. These costs are also added at Aden, despite it being declared a 'safe areas' and not being subject to the United Nations Verification and Inspection Mechanism.<sup>88</sup>
- **Air cargo costs:** Insurance companies impose 200% insurance fees on Yemen Airways. While the most important cargo airports are Sana'a, Hodeida and Taiz airports, flights have only resumed to Aden and Sayun, with international flights limited to Cairo and Amman.<sup>89</sup>

### 6.3 Limited relationships, but mistrust and hostility are rare

Household respondents were asked to identify the types of relationships they continue to maintain across conflict divides.<sup>90</sup> About 48% of household respondents state that they hold no relationship across the conflict divide. Those relationships held are with friends (48% of households) and family members (33%). While almost half of Yemenis hold no relations across the conflict divide, animosity is relatively low for a protracted social conflict: only 17% of household respondents stated that they mistrust the other side and even less expressed open hostility (6%).

Graph 32: Cross divide relationships (%)



At present, businesses and trading relationships are relatively low (14% of households). Given that only 22% of households earn some form of income from large private sector companies and 13% of households are involved in small businesses, it can be interpreted that roughly 38% of households with businesses maintain such links. It is difficult to assess the total number of households involved in business, as retail and agriculture could also be added to this category. This analysis does not take into account large-scale trading operations or black-market operations, that are most probably not run at the household level.

<sup>87</sup> IRG area interviews, December 2020.

<sup>88</sup> IRG focus group discussion, Mu'alla, Youth up to the age of 33, December 2019.

<sup>89</sup> IRG focus group discussion, Mu'alla, Youth up to the age of 33, December 2019.

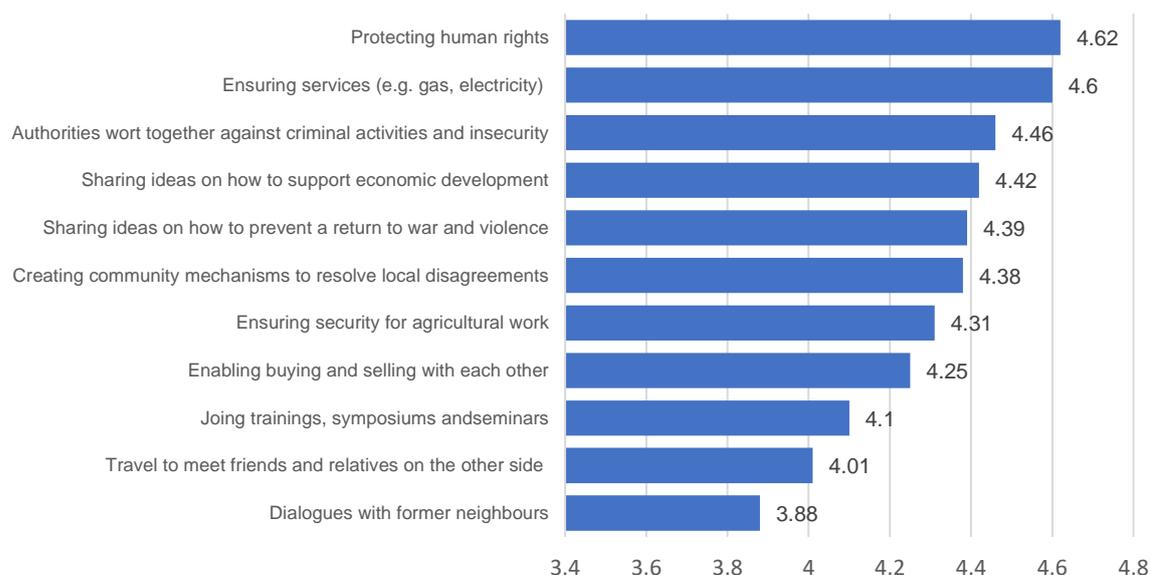
<sup>90</sup> Household survey question 26: 'What relationships does your family have with people on the other side of the conflict borders?' Respondents could three relationship against a ranking score. The ranking was then weighted.

## 6.4 Confidence-building through practical initiatives

The lack of animosity across conflict divides is reflected in Yemenis' support for a range of initiatives to encourage engagement with the other side. All the proposed initiatives are on average supported. Again, this is rare for a protracted conflict such as Yemen, where support for cross-divide initiatives tends to diminish over time.<sup>91</sup>

**Graph 33: Level of support to engage with the other side**

3.00 indicates neutral support, 5.00 high support



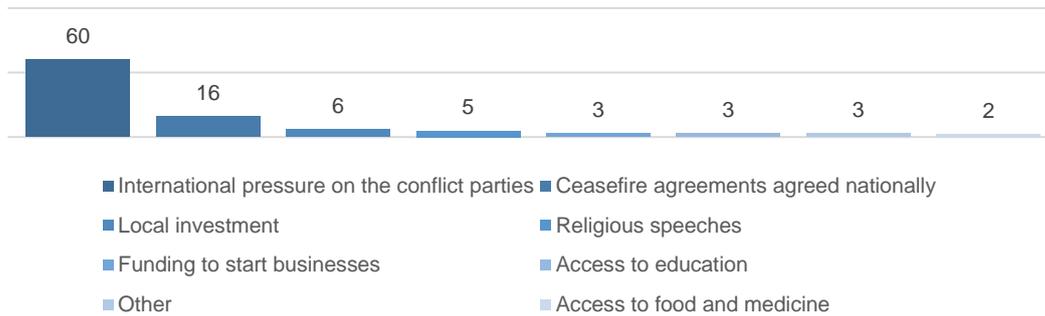
The most supported types of initiative are those that protect human rights (4.63 average) and ensure public services (4.6), followed by combatting criminality and planning for economic development. This top four reflects the findings on drivers of insecurity, that both Yemenis' sense of security is equally affected by physical and economic issues. The least supported types of initiatives are meeting in dialogues with former neighbours (3.88), travel to meet friends/family on the other side (4.01) and holding trainings, symposiums and seminars. This would appear to demonstrate that Yemenis support initiatives that they feel will deliver practical results, more than those that appear to be 'dialogue for dialogue's sake'. There were no substantial differences across the three research variables – authority, development and violence.

Household survey respondents were also asked to prioritise those actions that they believe would help to build confidence across divides and in a potential peace agreement. The responses demonstrate that Yemenis are focused on the international level of the conflict, with 60% of household respondents believing that international pressure on the conflict parties would build peace.<sup>92</sup> The second strongest focus is at the national level, with 16% of household respondents believing the best chance of progressing peace would be through a national ceasefire. The remaining response options are all at the local level, and all were only selected a limited number of times.

<sup>91</sup> Household survey question 27: 'How much would you support the following activities to encourage engagement with others?'

<sup>92</sup> Household survey question 28: 'Which of these would help reduce the impact of conflict on your community?' Respondents only pick one response.

Graph 34: Belief that actions would build confidence (%)



It is a common occurrence that those living in conflict focus on the role of international and national actors, believing themselves to be impotent to change political and conflict dynamics. As such, it is usual for research on such issues to rate the perceived potential of local solutions after having discounted reference to national and international solutions. The research methodology did not allow for this weighting exercise. As such the above table does not help us to discern the relative value of the local options presented.

## 6.5 The importance of local leaders, especially businessmen

The focus group discussions and interviews were also used to explore potential measures that could enable confidence in support of peacemaking. While recognising the international dimensions of the conflict, research participants felt that local leaders, including military, civilian, business and tribal, can play more of a role than national political leaders in making peace realisable on the ground. This is because of the local legitimacy they hold and their practical influence on day-to-day issues: “There is a major role for the United Nations to influence the conflict parties to stop the fight. Also, tribal leaders and traditions have sway over local communities; they can withdraw resources, recruits and other support from the different parties of the conflict”.<sup>93</sup>

Businesses were identified as uniquely placed among local leaders to work across the nexus between political leaders (in Aden and Sana’a), local authorities, security actors and the communities where they do business. This is because businesses need to maintain strong relationships in order to survive commercially and politically. Dfa focus group participants stated that it is essential for businessmen to have relationships with political insiders, and that such relationships are equally as important as investment capital: “To engage in trade and not be harassed, you must know an influential person or state official, or to have a partner who is a decision maker in the state”; “In addition, in order for a person to become a successful businessman in the local community, it is a must to be in relation with a *mushraf* (supervisor) or a revolutionary committee members”.<sup>94</sup> IRG focus group participants noted a similar requirement, describing the network of relationships that business owners and traders hold with local authority officials, security forces and community leaders as ‘semi-customer relationships’ that are essential to ensuring the success of businesses and investment projects: “Yes, business owners and merchants must build relationships with officials in the local authority and military and security leaders in order to succeed in their trade and investment projects”.<sup>95</sup> IRG focus group participants emphasised the importance of relations with security forces – an emphasis lacking in the Dfa focus groups – demonstrating the growing importance of security forces in IRG areas.

<sup>93</sup> Dfa area respondents, December 2019.

<sup>94</sup> Dfa focus group discussion, Shu’aub, young people up to the age of 40, December 2019.

<sup>95</sup> IRG focus group discussion, Al Muthafer, higher education level, December 2019.

Collectively the focus group participants identified the following relationships as essential for local businesses:

- **Political relationships:** Either demonstrate loyalty to the authorities or demonstrate complete independence from their opponents.
- **Local authority relationships:** Participate in, support and finance activities and events that have been organised by local authorities (for example, local celebrations or street cleaning campaigns).
- **Technical relationships:** Maintain strong relationships with technical branches responsible for business supervision. Obtain the required commercial and banking paper, if the business involves import, to ensure you have political cover.
- **Community relationships:** Ensure community satisfaction in the project area so that you are protected by public pressure.
- **Security group relationships:** Maintain relationships with security forces in IRG areas so that you can negotiate checkpoints and bribery demands.

This network of relationships – with political authorities, local authorities, technical bodies, communities and security groups – means that businesspersons are at the heart of web of people influential on both conflict and economic issues. This web has been developed to protect their businesses and manage the various pressures they are under. However, they also provide a resource that can be utilised to build confidence across conflict divides. Focus groups participants identified the following ways in which businesses can practically build confidence:<sup>96</sup>

- **Enhance local human security:** Businesses are thought to have in some cases helped enhanced human security. Focus group discussions and interviews referenced the role of the Hayel Saeed Anam group in easing restrictions on the movement of people in some neighbourhoods of Taiz by ensuring monthly payments to the conflict parties.
- **Crisis management:** Businesses are the first to be affected by a new round of conflict or violence. As a result, they often collaborate (including across conflict divides) to stop any violence brewing so as to protect their interests.
- **Help meet urgent needs:** Businesses are also perceived to be able to play an indirect role in managing the impact of violence and hence the creation of new grievances that could spur future violence. This has been done through assisting with aid provision, and through rehabilitation and support of educational and health institutions.
- **Shared working environments:** Larger businesses are thought able play a role in building relationships through the establishment of branches across conflict divides, and through these branches bringing workers together within a shared environment.
- **Peace dividends through trade:** It was argued businesses could assist confidence by enabling the flow of goods, which in turn could help unification of commodity prices and greater interaction across divides.
- **Economic visioning:** Local businesspersons are believed to be able to form joint economic commissions that focus on enhancing local economies and people's livelihood across conflict divides. This could include planning to establish joint business initiatives that

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<sup>96</sup> Dfa focus group discussion, Ma'een, businesspersons, December 2019; Dfa focus group discussion, Shu'aub, young people up to the age of 40, December 2019; Dfa focus group discussion, Al Thawra, more educated, December 2019.

link the interests of the conflict parties locally and nationally. For example, joint business ventures, or free markets and industrial zones.

That said, interviewees also highlighted the risk that local businesses face when they try and assist de-escalation or peacebuilding. They can be victim of intimidation and additional extortion by militias or other powerful actors who benefit from the conflict and violence: “Some businessmen tried to undertake initiatives to decrease the impact of the conflict on citizens, such as the Chamber of Commerce and the businessman Shawqi Hayel Saeed in Taiz. However, militias attacked the Hayel Saeed family home as a punishment”.<sup>97</sup>

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<sup>97</sup> IRG area interviews, December 2019.







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