



# The Impact of the Truce on the Activity of the Private Sector in Yemen

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## Background

The political conflicts and deadly wars that devastated Yemen in the last three decades, the most recent of which is the civil war since March 2015, and the subsequent regional and international intervention in Yemeni affairs, have heavily impacted the economic, social and humanitarian situation in Yemen. The performance of the economy worsened severely and economic activity slackened due to the embargo and the destruction of public and private properties, namely the infrastructure and institutional assets, which translated into income losses, rampant unemployment rates, rampant corruption and poor distribution of resources and wealth. In addition to the deterioration of the social and humanitarian conditions represented by increased displacement, killing, asylum, displacement, malnutrition and the outbreak of epidemic diseases - the available data indicate<sup>1</sup> that more than 23.4 million people require humanitarian assistance, 12.9 million of whom are in urgent need of assistance to access life necessities and maintain their health and safety, including the 4.2 million displaced people<sup>2</sup> and the 80% who live below the poverty line<sup>3</sup>.

Recognizing the importance of de-escalating the fighting and violence and addressing the urgent humanitarian and economic needs of the Yemeni people, as well as providing an enabling environment for a peaceful settlement of the conflict, the parties to the conflict in Yemen, with the support of the Office of the Special Envoy of the Secretary-General of the United Nations to Yemen and a group of countries and other organizations, implemented a two months truce<sup>4</sup> starting April 2, 2022, which was extended twice, until October 2, 2022. The truce included stopping all land, air and sea offensive operations inside and outside Yemen, freezing the current military positions, providing access to 18 tankers every two months to the ports of Hodeidah, in addition to operating two commercial flights weekly

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<sup>1</sup> United Nations Office for the Coordination of Humanitarian Affairs OCHA, Yemen Situation Report, September 5, 2022 <https://reports.unocha.org/ar/country/yemen/>

<sup>2</sup> Ministry of Planning and International Cooperation, Economic and Social Development Bulletin, No. 68, January 2022.

<sup>3</sup> OCHA, Yemen Humanitarian Needs Overview, February 2021.

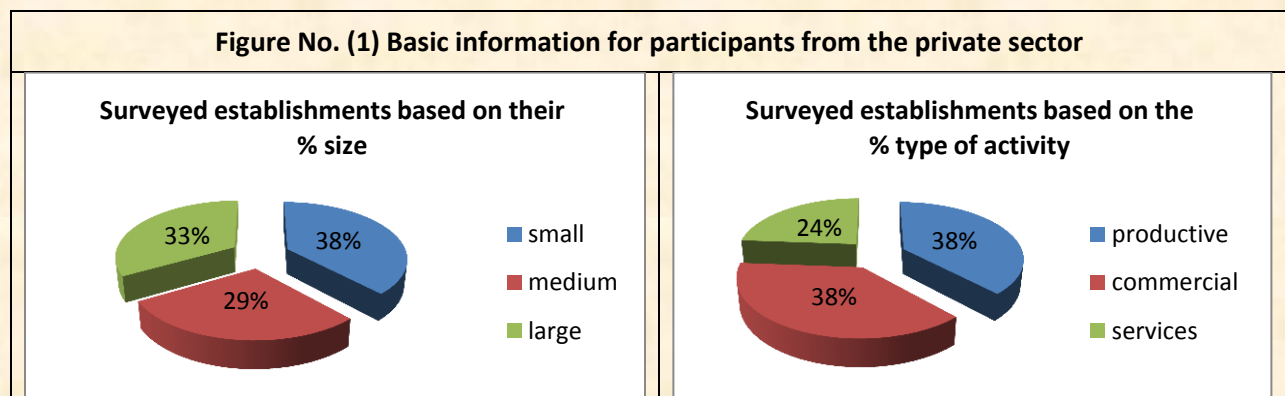
<sup>4</sup> Office of the Special Envoy of the Secretary-General for Yemen, <https://osesgy.unmissions.org/ar/%D8%A8%D8%A7%D8%AF%D8%B1%D8%A9-D9%85%D8%A7%D8%A3%D8%D8%A7%D8%D8%A7%D8%AF%D8%A93%D8%A5%D8%A8%D8%B1%D8%A7%D8%D8%A%D8%A9%D8%A9%85%D8%AF%D8%AA%D8%A77%D8%B4%D8%B1%D8%A7%D8%>



## The Impact of the Truce on the Private Sector

Given the importance of the truce from an economic point of view, the Federation of Yemen Chambers of Commerce and Industry, with the support and assistance of the International Labor Organization, inquired about the feedback of the Yemeni private sector - businesses, institutions and private establishments - regarding the truce and its impact on the various activities; it surveyed their ability to operate and employ on the one hand, and the truce impact on the overall business environment on the other hand. The initiative inquired about the businesses' expectations regarding future performance and working environment should the truce be further extended.

The Federation of Yemen Chambers of Commerce and Industry distributed a questionnaire to selected members of the Chambers of Commerce and Industry in Sana'a and the governorates of Aden, Taiz, Hodeidah and Hadramout, in addition to the specialized committees in the Federation<sup>6</sup>. The basic information of the businesses/establishments which responded to the questionnaire shows that about 38% work in the productive sector,



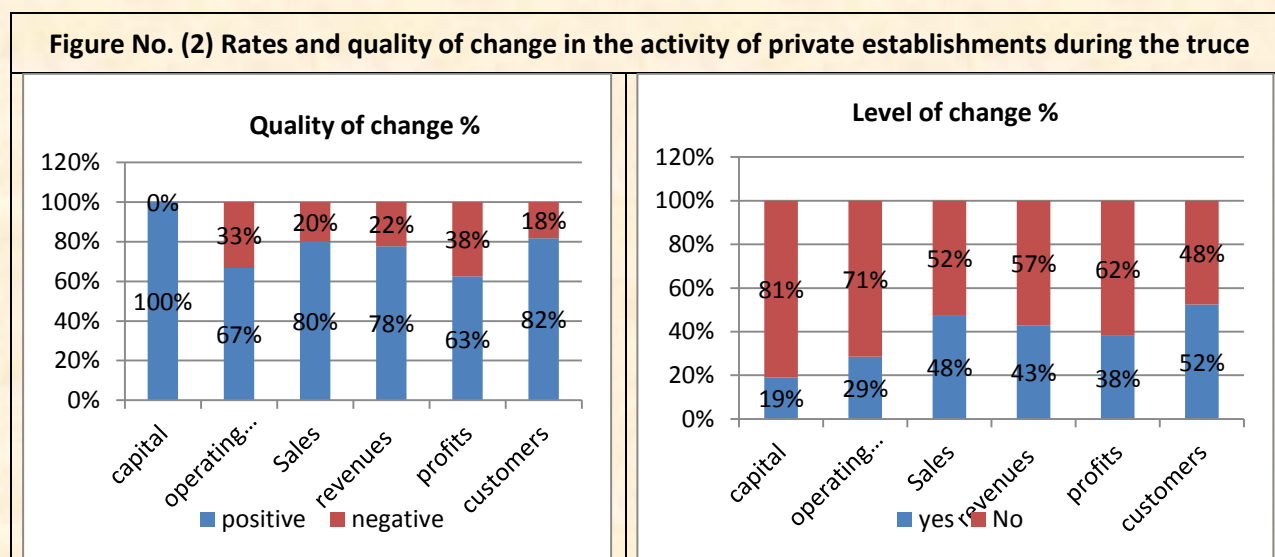
while 38% work in the commercial field, and 24% operate in non-commercial services. In terms of the size of enterprises included in the questionnaire, the percentage of small enterprises was about 38%, medium enterprises 29%, and large enterprises 33%. The enterprises participating in the questionnaire, had their economic activity in Sana'a 48%, then Hadramout 33%, Al-Hodeidah 14%, and finally Taiz 5%.

<sup>6</sup> The Center of Studies and Research at the Federation selected a random sample of 300 registered companies and received responses from 10% of the sample.

## The Impact of the Truce on the Business performance

The activity of private businesses/establishments is linked to a wide range of factors related to the special work environment surrounding these facilities and the extent of its interaction with clients, given the breakthrough in the economic and operational conditions surrounding them in Yemen during April-October 2022 (the truce period), especially the availability of oil derivatives and the resulting decrease in the value of transportation services, electricity and water, the cessation of military operations and the temporary improvement of the business climate. The results of the survey showed that the truce improved, though slightly, the performance of private institutions, since it was brief on the one hand, and was not accompanied, on the other hand, by any economic reforms taken by the Yemeni ruling authorities.

Figure No. (2) shows that activity levels in private establishments have slightly changed during the truce period, as 19% of private establishments reported changes in their capital, compared to 81% of establishments whose capital has not changed. Moreover, the capital curve changed positively (increase in capital) at 100% for the establishments in which

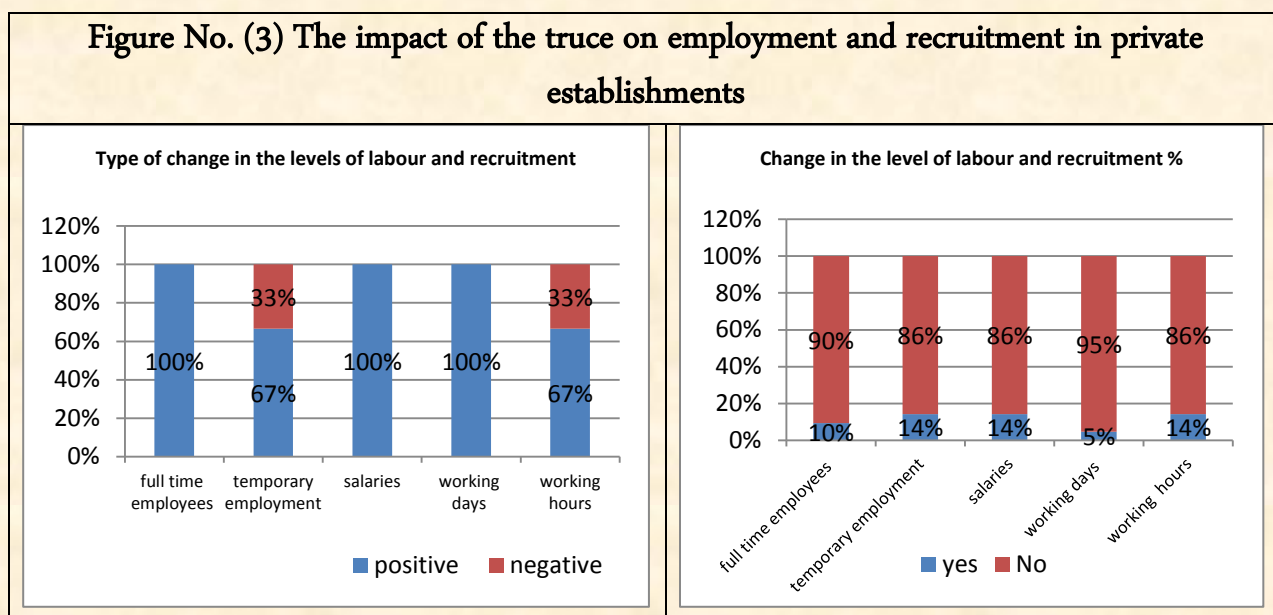


change had occurred. As for the operating expenses curve, 29% of private establishments participating in the survey reported a change in their expenses, compared to 71% of the establishments, whose operating expenses did not change.

As for the outputs of private institutions and companies in terms of sales, number of customers, financial return and profit levels, 52% of private businesses and establishments reported a change in the number of customers, 48% highlighted a consequent change in sales and others reported a change in revenues (43%) and profits (38%). **The majority of establishments that witnessed changes in the outputs of their activities reported that the direction of that change was mostly positive and reached its highest among customers (+82%), sales (+80%), revenues (+78%) and profit (+63%).**

### The Impact of the Truce on Employment and Recruitment in private sector

Job losses and limited new opportunities during the years (2014-2020) are one of the most important direct results and repercussions of the conflict and war in Yemen, where the stretched economic downturn caused an increase in unemployment rates to about 32% of the total workforce in the economy in the year 2020 compared to about 13.5% in the year<sup>7</sup> 2014.



<sup>7</sup> Central Statistical Organization, estimates based on the results of the Labor Force Survey 2014.

Although the conditions for the production and marketing operations of the private sector improved during the truce, their impact on employment and recruitment remained shy, as the responses of private businesses and establishments indicated that change in recruitment, employment and productivity was limited, with only **10% of the businesses reporting a change in full time employees compared to 90% of the businesses where no change was reported**. The same applies to the rest of the variables i.e. type of recruitment, such as temporary employment, salaries, working days and hours, where change in private sector establishments during the truce ranged between 5% and 14%. This is mainly due to the short period of the truce on the one hand, and to the limited changes in the level of activity of private establishments, as previously explained, on the other hand.

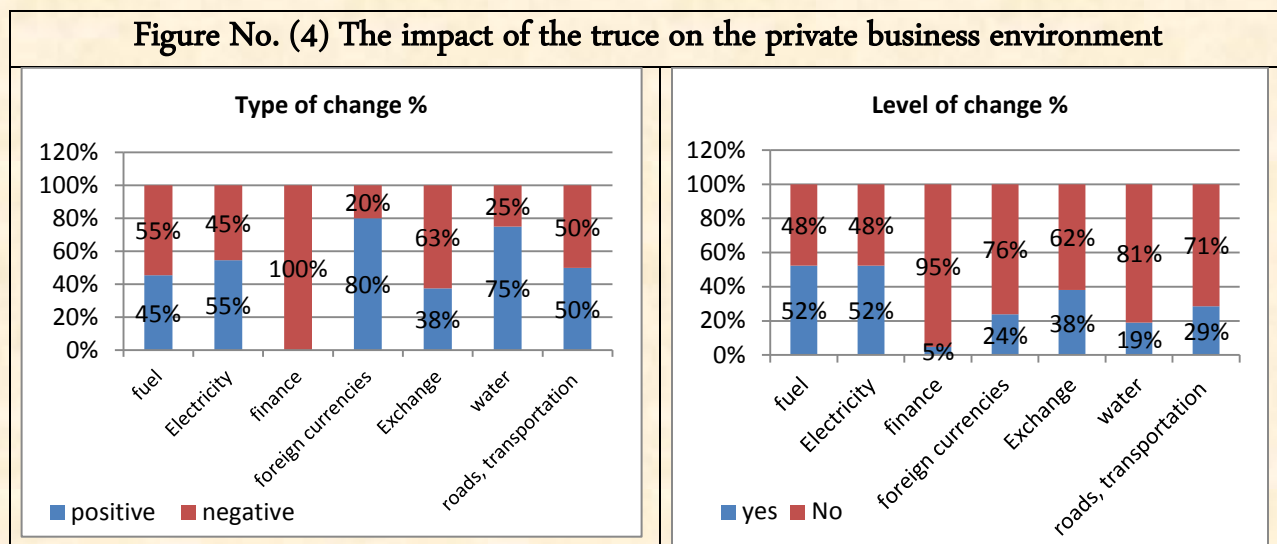
It is worth noting that the changes in terms of labor and employment in private establishments, although limited, was mostly positive, meaning that many private establishments responded to the rapidly changing conditions of production, and this indicates the extent of flexibility that private establishments enjoy in their production and marketing operations and the possibility for the private sector to lead the economic recovery efforts in the event of an extended truce or the building of a permanent peace agreement in Yemen.

## **The Impact of the Truce on the Business Environment**

Infrastructure services and other facilities related to recruitment and production play undoubtedly an important and direct role in the performance of private sector institutions. In fact, the declining suitability and effectiveness of these utilities, particularly electricity, energy and transportation, increases the time and effort spent by private establishments to obtain the services and production assets needed for production and marketing, or attempt to procure the same informally at a higher price, which reflects into higher production and marketing costs, fewer profits and return, and less incentive to produce and vice versa provided that an efficient and effective infrastructure and sufficient and sustainable production resources.



Although the truce focused mainly on the business environment, it has, however, brought about changes in many elements and issues related to the overall business environment, as **52% of the private sector establishments believe that they have sensed a change in the availability of oil derivatives and power supply**, whether in terms of service availability or a decline in the price level.



Private sector establishments noticed an improvement in oil supplies and a decline in their prices in the local market, which positively impacts production, supply and transportation in the private sector, in addition to changes in the rest of the business environment such as financing and availability of foreign currencies, level of exchange rates for the local currency, roads, transportation and water. These changes ranged between 5% in terms of access to finance and 38% in the level of exchange rates.

### Private Sector Expectations in the event of a Truce Extension

The challenges of political and security stability, namely insecurity, the show of weapons and attacks on private institutions and factories, represented one of the most important challenges facing private sector establishments at the present time<sup>8</sup>, coupled with the high

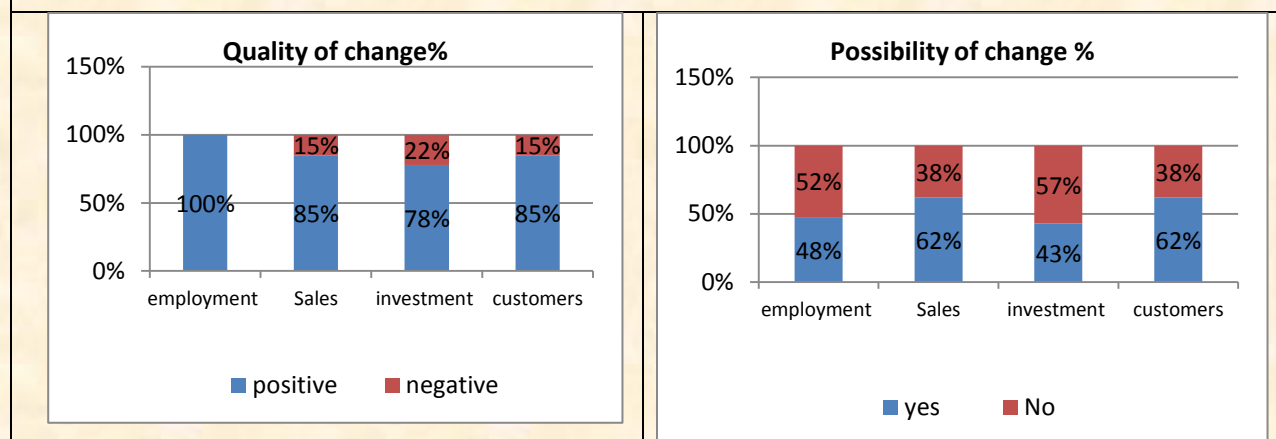
<sup>8</sup> Federation of Yemen Chambers of Commerce and Industry, The Private Sector’s Vision for Reconstruction, Sana’a, August

costs of insurance and shipping to Yemeni ports, Yemen being an insecure country, and the impact on production costs. Another set of challenges arises from the division in the economic institutions related to the activity of the private sector. The extension of the truce to build permanent peace in Yemen represents one of the most important determinants affecting the activity of the private sector in the future, and the possibility for the private sector to expand its activities and contribute to increasing employment levels, recruitment, wages and reduce unemployment and poverty.

Based on this, **62% of the private sector establishments expect that any extension of the truce or the building of a sustainable peace process in Yemen will enable them to attract more customers or clients and thus increase their sales in a way that will enable them to increase profits in the future, being more productive and increase demand on the labor force which will reflect in higher employment rates. 48% of the private sector establishments believe that they can increase the levels of employment and recruitment if political and security stability continues, and 43% of the private sector establishments expect a change in investment levels if the current truce is further extended.**

It is worth noting that the expectations of business establishments for future performance, including aspects related to employment, recruitment and investment, were positive and ranged between 78% in terms of increased future investments in the private sector and 100% in terms of increased demand for manpower by private sector enterprises and thus an increased level of operation in the economy.

**Figure No. (5) The expectations of the private sector for business performance in the event of a truce extension**



## Priorities for the Future

Despite the multiple positive effects of the previous truce on the performance of private sector institutions in particular and the standard of living of citizens in general, they remain insufficient as they were restricted to a very limited number of economic issues which, although important, are not sufficient to restore the economic activity of the private sector naturally compared with pre-2015.

Considering the economic and social responsibility of the private sector, participants raised a set of important and basic issues that can be included in the terms of any upcoming truce between the parties to the conflict in Yemen, as well as within the terms of any upcoming negotiations to establish peace and security. They are as follows:

1. **Working on building peace, enhancing security and political stability to encourage investments, expanding areas of partnership with the local and foreign private sector**, removing political and security concerns, and employing human, social and cultural ties to push towards consolidating an attractive economic and investment environment; working to reduce tensions between Yemen and its regional

surroundings, and agreeing on building a political and economic vision in which common interests prevail over the current differences.

2. **Paying the salaries of civil and military employees and retirees**, which, in addition to being an inherent human right for a wide category of the Yemeni people, represents **one of the sources of aggregate demand in the economy** and has a major role in reviving the commercial, economic and investment activity, thus increasing the levels of employment and recruitment.
3. Unifying the economic institutions related to the activity of the private sector, led by the Central Bank of Yemen, and **ending the double taxation and customs duties among the divided executive authorities**.
4. **Restarting the public electricity grid**, as the power and energy sector is a major priority among the various economic sectors and must have multiple economic and investment privileges; it is the main driver for the rest of the economic sectors and activities. **Focusing on investment in the renewable energy sectors**.
5. **Working to open roads between the different Yemeni governorates** in a way that contributes to reducing the additional costs borne by the private sector due to the use of long and difficult alternative roads in transporting production requirements and final goods and services.
6. **Working on the full operation of Yemeni airports and ports**, including reviewing mechanisms and programs for inspecting ships outside Yemeni ports and introducing new provisions that include transferring these procedures to Yemeni ports in a manner that contributes to improving the flow of goods and services and reducing additional costs borne by the private sector.
7. Initiating the reconstruction of what was destroyed by the war, emphasizing the importance of partnership between the private sector, government agencies and donors in the reconstruction efforts, whether through participation in building and drawing public policies and strategic plans related to reconstruction, or by providing goods, production requirements and services necessary for reconstruction.