



HPG Report

Private sector engagement in complex emergencies: case studies from Yemen and southern Somalia

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Executive summary

While there is growing recognition of the role of the private sector in humanitarian action, little in-depth analysis on this issue has been conducted in areas of conflict. Building on previous research by the Humanitarian Policy Group at the Overseas Development Institute, in collaboration with the Humanitarian Futures Programme and the UN Office for the Coordination of Humanitarian Affairs (OCHA), this study explores how the local private sector has responded to the crises in Yemen and Somalia, and the opportunities for, and obstacles to, private sector engagement with the humanitarian sector in such contexts. The study offers several correctives to existing assumptions about the scope and scale of potential private sector involvement in situations of conflict. These assumptions are informed by perceptions of the private sector as risk-averse, limiting its humanitarian role to that of a funder of humanitarian causes rather than an actively engaged partner on the ground. Another perception is that the private sector in a conflict, like many local actors, is politicised and thus unable to uphold humanitarian principles of impartiality and neutrality. Finally, the study identifies potential opportunities for cooperation between the business and humanitarian communities (international, national and local) in order to better address the needs of affected communities.

The humanitarian crises in both Yemen and Somalia are tied to natural disasters (the 2015 cyclone in Yemen and the 2011 famine in Somalia) in addition to protracted political conflict. Both countries suffer from regional divisions, resource scarcity, internal and external displacement and a proliferation of armed groups, and both have close kinship ties with neighbouring countries. In Yemen, the 2015 coup by the Houthis against the government precipitated an intervention and naval blockade led by Saudi Arabia that has rendered over 21 million Yemenis in need of some form of humanitarian assistance. Even if a negotiated political agreement is reached, the crisis is bound to have long-term consequences for Yemen and the region. In Somalia, the humanitarian context for the last ten years has been defined by mass displacement, insurgency and counter-insurgency, the rise of Al-Shabaab and a large-scale famine in 2011

in which an estimated 260,000 people died. The challenges facing humanitarian organisations in both countries include food and water insecurity, internal and external displacement, problems accessing affected populations and distributing food and medical aid, shortage of funds, destruction of vital infrastructure and violations of International Humanitarian Law.

Analysis in this study focuses on private sector actors that have a humanitarian role. In both contexts, the private sector has facilitated access to humanitarian aid, leveraged its own resources and distributed assistance (cash and otherwise) to affected communities. In Yemen, a microfinance bank has used its established networks across the country to distribute cash assistance, and has collaborated with humanitarian actors such as the Red Cross. Two of Yemen's largest business groups have taken on responsibility for distributing food and other resources. In Somalia, the private sector delivers humanitarian commodities under contracts worth hundreds of millions of dollars. Private sector actors and humanitarian organisations have also collaborated in delivering cash-based programming via the *hawala* money transfer network.¹

This preliminary study finds a number of areas of common ground that may help foster stronger connections between the business and humanitarian communities, both within these contexts and more broadly. A key recognition is that the private sector is present in complex emergencies, contrary to the general perception that areas of conflict are no place for business. The challenge is to foster positive relationships which can support humanitarian goals. Key recommendations across the two countries include:

- Strengthen the links between local and international businesses, and between business and the humanitarian sector.

¹ The *hawala* system is a traditional means of transferring money used in Arab countries and South Asia. It is based on networks and trust, whereby an amount of money is given to an agent who then instructs an associate in the country or area to pay the final recipient.

- Convene discussions to chart constructive responses to counter-terror requirements.
- Actively integrate business engagement in humanitarian action within the wider corporate sustainability movement and lexicon.
- Networking networks: convene business networks at country and regional levels.
- Understand the links between private sector and market-based approaches in complex emergencies.

1 Introduction

There is growing recognition of the role of the private sector in humanitarian action, either indirectly, ‘by resuming operations in crisis-affected areas’, or directly, ‘by providing cash and in-kind donations of goods or services’, as well as via ‘partnerships between aid agencies and corporations and business-driven innovation’ (Zyck and Kent, 2014: 1). A study by the Overseas Development Institute on the role of the private sector in emergency preparedness and response found that businesses were making a significant direct contribution to humanitarian aid in the form of ‘new technologies and other innovations and the sharing of technical capacities in areas such as logistics, telecommunications and cash transfers’. The private sector has also been ‘developing models which are commercial in nature but which ultimately help to meet humanitarian needs and reduce vulnerability to future disasters’ (Zyck and Kent, 2014: 1). However, while there are studies that address the role of the private sector in disaster relief, little in-depth analysis has been conducted on its humanitarian role in areas of conflict. As the formal humanitarian system – the UN agencies, the Red Cross Movement and the large international NGOs – struggles to meet increasing needs in conflicts and disasters, there is an incentive to explore means to harness the private sector in the service of more strategic and sustainable humanitarian engagement. This study examines local private sector engagement in humanitarian action in Yemen and southern Somalia, with an emphasis on potential exchanges between businesses and the formal humanitarian system within a political conflict.

Two factors explain the lack of analysis of private sector humanitarian engagement in conflict settings. The first is the assumption that, because the private sector is risk-averse and profit-driven, it shies away from humanitarian action in contexts of political conflict. In many ways this logic does hold true, but there is also evidence that local businesses have found ways to operate in these contexts, and that there is substantial investment from the private sector in humanitarian work. Another assumption is that the private sector, like many local actors, can be politically aligned in a conflict, and thus unable to uphold humanitarian principles of impartiality and neutrality.

Box 1: The humanitarian sector

The ‘humanitarian sector’ refers to organisations with mandated roles and responsibilities for providing humanitarian assistance, including international non-governmental organisations, members of the Red Cross Movement, the International Federation of the Red Cross and Red Crescent (IFRC), the International Committee of the Red Cross (ICRC), UN agencies, national and local non-governmental organisations and government donors (HFP, 2013).

This study identifies potential opportunities for cooperation between the business and humanitarian communities (international, national and local) to better address the needs of affected communities. Exploring private sector engagement in humanitarian action in zones of conflict will help illuminate its current and potential roles, as well as potential partnerships with the formal humanitarian system. The private sector’s capacity for innovation and creativity has been a resource for humanitarian actors on various levels – the question is how to marshal these resources effectively and sustainably in contexts of conflict. Building on previous research by HPG, in collaboration with the Humanitarian Futures Programme and OCHA, this study explores how the local private sector has responded to the crises in Yemen and Somalia, and where potential opportunities and synergies can be achieved. The objective is to understand how the private sector operates in protracted crises and complex emergencies in order to ensure that its advantages and limitations are systematically factored into humanitarian planning and responses in ways that enhance all aspects of the humanitarian endeavour, from better anticipation and preparedness to response and post-crisis resilience-building.

1.1 Research strategy

The guiding question for the study is: how have local private sector actors responded to the protracted

humanitarian crises in Yemen and Somalia? Researchers interviewed Yemeni and Somali businesspeople, humanitarian actors from the multilateral system (UN agencies and the European Union (EU)) that have engaged with the private sector and diplomats and government officials. Because the focus of the study is on local businesses, their interface with the formal humanitarian sector and the degree to which their resilience is bound to the resilience of the communities they belong to, exploring the role of international businesses is beyond the scope of this study. This is a preliminary study and therefore not exhaustive, but it can serve as a springboard for more comprehensive analysis.

A qualitative approach was used to gather perspectives on the kind of roles businesses were interested in playing in addressing humanitarian crises, and the challenges they have faced in doing so. A purposive sampling approach was used. In addition to mapping private sector actors, the researchers undertook an in-depth review of existing literature on the shape and role of the private sector in Yemen and Somalia, as well as wider links between the private sector and humanitarian action in crises. A total of 40 interviews were conducted for the study, in addition to a roundtable discussion on Yemen held at the Overseas Development Institute in London. Interviews were conducted with businessmen, senior staff members at key humanitarian organisations and local and international NGOs.

Security concerns were taken into account and the confidentiality of the respondents has been maintained. Tensions in the region restricted the researchers' ability to access a wider circle of Yemen's business community, either in the country itself or in other parts of the world. In Somalia, arranging interviews with private sector actors required good pre-existing links. There is also a very limited literature on southern Somalia in general and the private sector in particular, in contrast with northern Somalia, where more research has taken place. A limited number of interviews were conducted in person and by phone in Mogadishu and Nairobi, including business actors, government officials, humanitarian agencies and humanitarian experts.

The paper comprises two case studies, each of which ends with a set of recommendations for better engagement between the private sector and the humanitarian community within the two contexts.

The final section draws together common conclusions and recommendations for private sector engagement in complex emergencies more broadly.

1.2 Defining the private sector

By 'private sector actor' we mean the wide range of entities responsible for the mobilisation of private resources towards profit. Definitions of the private sector generally point to that segment of a country's economy that is not under state control, but in many developing countries the distinction separating private from public sectors can be vague, and private sector actors may include the formal and informal economy, as well as entrepreneurial projects that are not registered as companies. These actors cross paths with civil society and government entities, both inside and across national boundaries. The variety of spaces within which the private sector operates can be both an opportunity and a challenge to analysis because parameters can be difficult to pin down.

In the case of Yemen, the business community is local, regional and international; many of the country's biggest businesses are run by Yemenis not based in the country, and who have businesses in other parts of the region, including Saudi Arabia, Jordan and the Gulf. They also belong to different family and tribal groups with allegiances that extend across borders, a pattern that stems from the origins of the private sector in Yemen during the period of Imamate rule from the tenth century, when a core group of merchant traders and their families emerged in Aden, an important port and the 'center of much of the international trade carried on between the northern regions of Yemen and the rest of the world' (Cassam and Miller, 1985: 5). Trade dynamics changed again during the civil war between 1962 and 1970, as old routes became insecure, and the oil boom in Saudi Arabia led to waves of Yemeni migration into the country (*ibid.*: 6).

The private sector in Somalia is also complex and fluid. Somali society is both highly mobile and socially inter-connected, and this is reflected in the commercial sphere. The majority of Somalis live in a vast contiguous area that includes Djibouti, Ethiopia, Kenya and Somalia itself, and people, livestock and goods have circulated within this region for centuries. In addition, Somalia has long-established connections to the Middle East for employment, religious and business purposes, and within the last 25 years a large Somali

diaspora population has grown up in Europe, the UK, Canada, the US and elsewhere. The result today is that many Somali businesspeople have multiple networks and are able to leverage opportunities and connections

in different places to further their business aims, making the business hubs of Djibouti, Dubai and Nairobi as important as Mogadishu, Bosasso or any other town or city in Somalia.

2 Yemen

2.1 The ‘forgotten war’: Yemen’s humanitarian vacuum

Instability has long been a feature of Yemeni life, with the expansion of separatist movements in the former South Yemen; a protracted civil war between the government in Sana’a and the Houthis, a Zaydi Shia revivalist movement allegedly backed by Iran; the presence of Al-Qaeda in the Arabian Peninsula (AQAP); and the proliferation of arms, including an estimated 10–16 million light weapons in a country of 27.5m people (Juneau, 2013).

Like other countries in the region, Yemen experienced its own ‘Arab Spring’ in 2011, with major street protests in Sana’a demanding political and economic reform. Although President Ali Abdullah Saleh announced that he would not run in elections scheduled for 2013, protests and street violence continued, eventually forcing Saleh to transfer power to his vice-president, Abd Rabbuh Mansur Hadi, under a plan brokered by the Gulf Cooperation Council (GCC). Hadi ran unopposed in the presidential election that followed Saleh’s resignation in February 2012. The GCC plan set out two key steps, the convening of a National Dialogue Conference (NDC) and the drafting of a new constitution based on its conclusions, but this fell well short of the demands for fundamental reform that had driven the protests that eventually forced Saleh from power (Schmitz, 2014). The Dialogue’s proposal for a new federal structure also did little to resolve the fundamental structural inequalities within the Yemeni economy or address the issues underpinning southern separatism.

The latest phase of the crisis began in August 2014, when mass protests broke out against the government’s decision to remove fuel subsidies. The following September the Houthis took control of Sana’a, and in January 2015 seized the presidential palace. The Yemeni parliament was dissolved and an interim Revolutionary Committee installed. The Committee has not been recognised internationally. A Saudi-led intervention began in March 2015 with airstrikes and a naval blockade, turning what had been ‘a complex

and long-running political crisis’ into ‘an all-out conflict’ (Perkins, 2015: 1). Parties to the conflict have used heavy explosive weapons and aerial bombing, and ground fighting has involved ‘rockets and mortars between Houthi militants and government allied fighters’. Other threats include bombings by Islamic State in Iraq and the Levant (ISIL) and the AQAP, both of which have taken advantage of the power and security vacuum in the country to mount attacks (Perkins, 2015: 1).

Since January 2015, more than 6,000 people have been killed in what has been called the ‘forgotten war’ between the Houthis and the Saudi-led coalition (BBC, 2016). Much of the country’s infrastructure has been destroyed. Oil and gas exports – the mainstay of the economy – have been suspended and the country’s already frail economy has been devastated. Homes, bridges and civilian buildings have been destroyed, and ‘hospitals, schools and life-saving humanitarian assistance have been hindered, blocked or closed down’ (Perkins, 2015: 14). One report from Human Rights Watch (2016) details 17 apparently unlawful airstrikes on 13 civilian economic sites, and according to the *New York Times* there were at least seven airstrikes on the international airport in Sana’a in April 2015 (Kalford and Fahim, 2015).

The deterioration has been alarmingly rapid; according to the head of the International Committee of the Red Cross (ICRC), Peter Maurer, ‘Yemen after five months looks like Syria after five years’ (BBC, 2016). Civilians are ‘bearing the brunt of the violence in Yemen and a population already suffering from desperate poverty, insecurity, malnutrition and limited access to health and sanitation is now facing a humanitarian emergency’ (Perkins, 2015). According to OCHA (2015), 14.4m people are unable to meet their food needs, including 7.6m who are severely food insecure. Almost 20m do not have access to safe drinking water and sanitation and 14m lack basic health care. More than 1.8m school-age children have lost access to education due to the conflict and more than 3,500 schools have been shut down. As of March 2016, over 2.7m people were internally displaced, alongside hundreds of thousands more who have left

the country, including 230,000 Yemenis registered in Somalia, historically a source of, rather than a destination for, refugees (OCHA, 2015b).

UN agencies are mostly operating through local organisations and, to a lesser extent, the Yemeni private sector, having pulled out a large number of staff from the country because of security concerns. Meanwhile, the civilian population remains largely unreached despite expanding humanitarian needs. The maritime blockade led by Saudi Arabia, officially intended to cut off arms supplies to the Houthis from Iran, is preventing commercial goods from entering the country, with disastrous consequences for a civilian population that relies on imports for 90% of its staple food needs, as well as medicine and fuel (Al-Maghafi, 2015). At the time of writing the blockade had eased, but it had not been lifted. The Houthis have also blockaded certain areas, including Yemen's third city, Taiz, which humanitarian agencies have been struggling to access since September 2015 (MSF, 2016).

2.2 The Yemeni economy and private sector in focus

Although Yemen's economy, like much of the region's, is based largely on energy – there are proven reserves of 3 billion barrels of oil and 17 trillion cubic feet of natural gas – it is significantly poorer than its major oil-producing neighbours. According to the World Bank, more than half of the population was in poverty in 2012, up from 42% just three years earlier (OCHA, 2016). Poverty is, however, uneven: rates are highest in Amran governorate (64%) and lowest in Al Mahrah (9%) (Al-Batuly et al., 2011: 15). Governance is chronically weak, in part as a result of the unification of North and South Yemen in 1990, which entailed the integration of two very different civil service structures and economic systems: a free-market tradition in the North, with limited social services, and the socialist South, where the private sector was more limited but public services were more established. Corruption – one of the key grievances of the 2011 protesters – is pervasive (Transparency International's Corruption Perceptions index (2014) ranks Yemen 161st out of 175 countries) and capital flight rampant: between 1990 and 2008, Yemen was the world's fifth largest source of illicit capital outflows among Least Developed Countries, with what amounted to \$12bn leaving the country, draining resources out of the

economy and effectively negating money flowing the other way in the form of international aid: 'For every dollar spent on aid in Yemen between 1990 and 2008, another \$2.70 left the country' (Hill et al., 2013).

The economy is dominated by a patronage/elite system that is both close to and suspicious of the government. By 2011, it was estimated that a small elite of around ten key families and business groups controlled the strongholds of Yemen's economy, accounting for more than 80% of imports, manufacturing, processing, banking, telecommunications and goods transportation. This elite, according to Salisbury (2011), can be divided into five core groups. The first comprises tribes such as the Al-Ahmar family, which heads the Hashid tribal confederation, who have used 'their social positions to obtain import licenses, work as partners to international firms, win government contracts and enter into the formal economy through control of banks and the telecommunications sector'. The second is made up of technocrats, 'some of which are reform-minded'. The third is composed of the security services, largely dominated by members of Saleh's family: serving military personnel control a major company, Yemen Economic Corporation (Yeco), which is subsidised by the state, and some members of the military reputedly play a role in illicit economic activities and fuel and arms smuggling. A fourth group comprises politicians 'who have been able to use their positions in a similar manner to the tribal elites'. Last comes the traditional merchant elite, based around a core of a few commercial families and businessmen with close relations with the former president (Salisbury, 2011: 11).

Economic liberalisation under Saleh – advocated and encouraged by the World Bank – was 'intended to create markets that offer a playing field, increasing competition and thereby driving down prices and improving living standards as well as promoting economic growth'. In fact, Saleh's reforms simply co-opted the existing patronage system, especially in the military and the oil and gas industry. In 2013, Transparency International ranked Yemen among the most corrupt defence establishments in the world (Hill et al., 2013). Meanwhile, the Yemen Petroleum Company, a government monopoly, dominates the 'import and distribution of petroleum products' (Hill et al., 2013: 21). Little appears to have changed since the 2011 uprising and the GCC-brokered transition plan: 'the substructure of the pre-uprising political economy has remained largely intact throughout the transition, with all evidence pointing to internal

“rebalancing” between elite beneficiaries as opposed to radical change’ (*ibid.*).

Below the elites, the private sector consists predominantly of micro, small and medium enterprises (MSMEs) – over 97% of firms (about 290,000) have fewer than 25 employees, with a total workforce estimated at around 600,000, including around 30,000 women (Assaf, 2013). Many of the larger businesses are run by Yemenis who are not based in the country, but who belong to family and tribal groups with allegiances that extend across borders. An estimated five million Yemenis have migrated worldwide, with a substantial proportion in Saudi Arabia and the Gulf, possessing businesses thought to be worth millions of dollars (CIPE, 2014). Official records estimate that 860,000 Yemenis are legally residing in Saudi Arabia, plus around a million working there illegally. Saudi Arabia has long been a fixture in Yemen’s economy – a USAID report from 1985 concluded that the economy was driven, not by the development of indigenous resources, but by access to the Saudi labour market (Cassam and Miller, 1985: 9). As the Saudi economy evolved, Yemenis were employed in a variety of occupations, some ‘under the patronage of a silent Saudi partner’. Some Yemenis have Saudi kin and many possess Saudi passports (*ibid.*).

Yemen’s protracted conflict has had adverse effects on private sector activity that will require long-term national and regional engagement to address. Some areas have been more affected than others, both in scale and severity: a 2015 UN Development Programme (UNDP) survey suggested that 95% of businesses in Aden and Taiz were partially damaged, while in Sa’dah in the north-west 43% had suffered extreme damage: ‘Estimated cost of average damages to business premises are highest in Sa’dah at 35.3 million YER [Yemeni rials] and this high figure is due to the large portion of complete physical damage, this was followed by Aden at 5 million YER’ (UNDP, 2015: 4). According to a UNDP/SMEPS rapid assessment in 2015 (UNDP/SMEPS, 2015), SMEs were most affected by the conflict, with a third of medium enterprises shutting down compared to 17% of large businesses. While a number of businesses in Yemen, particularly within the oil industry and the service sector, have brought their operations to a complete halt, others, such as the food industry, continue to operate. Businesses owned by women and young people seem to have been less resilient than those owned by adult men (UNDP, 2015: 8).

The private sector was described by one respondent as an ‘integrative force’ in Yemen: less divided by politics and more united by an interest in a stable market.² This, however, does not mean that businesses in Yemen have not taken sides. Some, for example, remain loyal to Saleh’s camp, particularly in Taiz, which is under Houthi control.³ There was, however, a degree of agreement in interviews with Yemeni businessmen, analysts and international humanitarian actors that Yemeni businesses are well-positioned to play a strong role in any post-conflict economic reconstruction of the country, and that they had a key part to play in the distribution of humanitarian aid. Should a political settlement be reached, one respondent described Yemeni businesses as capable of ‘reconstructing lives’ alongside helping to reconstruct the economy.⁴ Overall, Yemeni businessmen are well-connected and well-versed in the needs, challenges and capacities of their communities. This makes a strong case for developing pathways to ensure their active involvement in humanitarian work, augment their humanitarian role and overcome some of the challenges they face.

2.3 Humanitarian roles of key private sector actors

According to study respondents, three main businesses have played a key humanitarian role in Yemen, contributing generously to humanitarian assistance, either through their own charitable organisations or by cooperating with humanitarian organisations such as Oxfam on access and the distribution of aid.

The first company – a multinational corporation involved in manufacturing and trade – was established in Aden in 1938 before expanding into the Middle East, Europe, Africa and Asia. It employs over 35,000 people globally. A foundation was established in 1970 to serve as the charitable and humanitarian arm of the company. The second company, founded in Aden in 1925, is involved in a number of business areas across Yemen and overseas, including dairy products, food, construction, shipping, insurance and packaging. Both

2 Interview with commentator on Yemen and director of an international organisation, 26 August 2016.

3 Interview with Yemeni humanitarian worker in Taiz, 24 August 2016.

4 Interview with commentator on Yemen and director of an international organisation, 26 August 2016.

firms have struggled to maintain a presence on the ground in Yemen since the outbreak of the conflict. In particular, the Saudi economic blockade has made it very difficult for them to keep their businesses running. Foreign banks have suspended their services to Yemen, and corruption has increased. According to one respondent: ‘People are paying their way to get what they want. Militias have ended up controlling the flow of food and medical resources. The Houthis have been buying food meant as humanitarian assistance and selling it at exorbitant prices. Lifting the blockade can help us access and distribute assistance better’.

The third business is an Islamic microfinance bank established as an expansion of a commercial company in Yemen. Launched in 2010 with support from the Social Fund for Development, it has financed money transfers and currency exchanges and supported small and medium-sized enterprises in compliance with Islamic *sharia* rules. It has around 78 branches across Yemen. The bank has been able to access different regions in Yemen through its branches and local networks with civil society organisations and local traders. When asked about political bias, a respondent who works for the bank emphasised that ‘We are not aligned with one party or another. None of our funds is politically motivated. This is our *meethaq al suluq* (code of conduct)’. This was confirmed via other interviews conducted with Yemeni civil society leaders and activists. Between March and August 2015, the only bank that remained open was the microfinance bank: ‘We made sure that people got their money and salaries on time. People were desperate. I remember a man came once and got the equivalent of twenty dollars and cried’. The bank has collaborated with humanitarian actors such as the Red Cross, which used its services to transfer money from Sana’a to Aden, and has acted as a distributor of cash assistance.

A number of smaller businesses have also been involved in the response. For example, the King Salman Center for Relief and Humanitarian Aid in Saudi Arabia has partnered with local businesses in Yemen to distribute food assistance. Within the energy sector, businesses provided and distributed fuel supplies in Sana’a and Hodeida, and brought in solar panels to address the lack of electricity.⁵ Private firms have also supplied water to residents in Aden and

5 A Ministry of Electricity and Energy official has suggested that at least 40% of Yemenis are reliant on solar energy (New Arab, 2016).

Taiz, and oxygen to hospitals. There are also examples of Yemeni businessmen ensuring that food prices are controlled or offering transport facilities for food and medication. Private hospitals are opening their doors, including to patients who cannot pay medical fees. However, none of this activity has been regulated or coordinated, and its impact is limited.

Looking ahead, the private sector is well-networked and can collaborate in building healthcare and education infrastructure beyond the immediate humanitarian response. One of the strengths of the private sector in Yemen is its resilience: many institutions have continued to function, and can serve as a springboard for better engagement by the private sector in humanitarian action. Local businessmen and those in the diaspora see themselves as part of Yemen’s social fabric: respondents described how the current war is directly affecting their families and communities, and saw their humanitarian response as a duty. This is informed by the Yemeni sociocultural context, which emphasises family and community ties, as well as the Islamic precepts of *zakat* and *sadaqqa*, which involve giving a portion of one’s wealth to charity. One company, for example, has been giving its *zakat* funds to communities in Taiz in the form of cash handouts and food assistance.⁶

2.4 Private sector engagement with the formal humanitarian sector

Interviews with humanitarian aid workers and members of the formal humanitarian system showed limited awareness of the diversity of private sector actors on the ground – small, medium and large – and of the roles businesses are able to play beyond transport and distribution. International humanitarian organisations and the international community more broadly do engage with businesses in Yemen, but on an individual basis rather than collectively.

In some cases, humanitarian organisations prefer to limit engagement with local companies and only contract them to transport food and medical assistance from ports to affected communities, where distribution is carried out by frontline humanitarian workers. This

6 Interview with Yemeni analyst, 25 August 2016.

stems from a fear of compromising the principles of neutrality and impartiality – local businesses are often aligned with a political group and distribution of assistance could be construed as a political ploy in favour of one camp over another. Humanitarians also buy goods, primarily food, from local businesses. One international NGO emphasised that it has a strict policy of importing medical assistance, rather than buying it from local businesses, to ensure compliance with healthcare standards.

Because of the highly polarised political context, the humanitarian role of the Yemeni private sector is limited to the provision of goods, transportation and, in some instances, distributing humanitarian assistance. Respondents pointed out that large funds and donations from the private sector to humanitarian causes were looked upon with suspicion by humanitarian organisations. There was also a general absence of any strategic or sustainable approach to engaging with the private sector as a partner in a humanitarian response. Referring to local businesses in Yemen, one respondent said: ‘They are partners in operations but not humanitarian partners. There are no strategic discussions with them. This will be a problem for us in the post-conflict world where we would have to rely on them very heavily to stimulate development’.⁷

Opportunities for cooperation include:

The Yemeni private sector has social capital and networks that facilitate humanitarian access

Despite concerns about the political bias of private sector actors, humanitarian actors cannot overlook the operational opportunities they provide. In a context where the economy is spiralling into chaos and ports are closed because of the economic blockade, and with growing insecurity, local businesses provide entry points for humanitarian access. ‘It is not easy to negotiate the humanitarian side because there is also a military side,’ said one respondent engaged in the humanitarian response in Yemen.

In addition to local knowledge – ‘they know the environment and they have the know-how to do business in Yemen’ – businesses seem to be willing to cooperate with one another. The fact that, ‘[b]ecause of the crisis, the market is not really competitive and they don’t want to depend on one single actor or a single

company’⁸ represents an opportunity for humanitarian actors to forge a space for engagement with the private sector in addressing humanitarian needs.

The private sector is well-positioned to lead the reconstruction of Yemen in the long term

The future role of the Yemeni private sector should a political settlement and a cessation of hostilities be reached was pointed out in the majority of interviews with humanitarians, as well as members of the business community. The ‘day after’ in Yemen will require the money, know-how and connections of the private sector. One humanitarian worker put it as follows: ‘Don’t expect the ICRC and others to provide the answer to all Yemeni needs. The answer is with the private sector ... If you want Yemenis to rebuild their country and recover from the conflict, the key will be the private sector. Not the Yemeni government but the private sector’.

The Center for International Private Enterprise (CIPE), an affiliate of the US Chamber of Commerce, has established a network of businessmen from across Yemen called the Economic Reform Team, which one CIPE staff member saw as well-positioned to play a key role in the economic reconstruction of Yemen once a political settlement is reached.⁹

Challenges to cooperation include:

Structural challenges within the humanitarian sector make cooperation with the private sector difficult. There is also a disconnect between adherence to the humanitarian principles of neutrality and impartiality and the situation in the field

Limited engagement between the humanitarian and private sectors in Yemen was partly attributed to the humanitarian sector’s complex bureaucracy – ‘The rules of our organizations are the problem’¹⁰ said one respondent, remarking on challenges to cooperation between the humanitarian sector and businesses. Decision-making on matters related to working with the Yemeni private sector is mostly conducted at headquarters level, where agreements and contracts with large and medium-sized companies are drawn up. One respondent representing a key humanitarian organisation emphasised that contracts are never written at field level, and while their organisation may

⁷ Interview with an international humanitarian worker, 7 December 2016.

⁸ Interview with humanitarian actor, 6 December 2016.

⁹ Interview, 26 August 2016.

¹⁰ Interview with humanitarian actor, 8 December 2016.

buy food from local businesses, it would not contract them for distribution because of fears of compromising neutrality. Representatives of organisations that do contract local Yemeni businesses to carry out distributions argue that this is a pragmatic choice in order to reach affected communities that would otherwise be inaccessible. However, in the current highly polarised environment finding companies that are acceptable to local communities is difficult; as one respondent put it: ‘The problem is with perception and finding a provider that is accepted by all parties to the conflict. If you contract a company from the North, it is not accepted in the South and vice versa’.¹¹

One respondent noted that humanitarian organisations are more likely to partner with a local civil society organisation or a local informal group than with a local business because humanitarians remain suspicious of private sector actors and their political and profit-making interests. That said, one respondent saw an inherent contradiction in accepting assistance from belligerent states, for example, but not from local businesses – ‘The rationale is that states have to provide money because they are signatories to the Geneva Convention. That’s why we take their money and use it. Private sector money, however, is suspicious’.¹² Another respondent described this as more of a philosophical decision. Those in leadership positions within the humanitarian sector had already elected not to work for a private business, and thus found it difficult to see themselves working closely with members of the business community. ‘There is a general mood of rejection towards the private sector because it seeks to make profit. We, on the other hand, work for a cause,’ said one respondent.

The difficult business environment is another challenge to engagement with the private sector

The economic blockade is making life extremely difficult for businesses as well as humanitarian agencies. Access is slow and costs are high: it can take weeks of inspections before a ship reaches port, at exorbitant cost (around \$50,000 a day for a large vessel).¹³ This, along with disarray in the banking system, means that companies are struggling to survive.

11 Interview with humanitarian worker, 8 December 2016.

12 Interview with international humanitarian worker, 7 December 2016.

13 Interview with humanitarian actor, 6 December 2016.

2.5 Conclusions and recommendations

How are Yemenis going to be able to sustain themselves? The destruction to their infrastructure and livelihoods has been extreme.
British diplomat, 21 October 2015.

While a political solution is always a prerequisite to resolving a humanitarian problem, the urgency of the humanitarian crisis in Yemen requires immediate concerted effort by a range of different actors. The private sector, while still suffering from Yemen’s governance problems, including the patronage system and the dominance of tribal networks, is well-positioned to perform an important and much-needed humanitarian role, both now and, crucially, over the longer term. Businesses are typically invested for the long term and stay and provide services for years. Two of the companies included in the study are family-run and pride themselves on their close to a century of operation in Yemen. This means that the bonds that connect these businesses to their regions are not just driven by profit, but are also based on family and historical ties. They are also less invested in the drivers of conflict in Yemen, and they have the knowledge and networks needed to turn things around. As one respondent whose family owns a business in Sana’a put it: ‘Yemenis are trapped and can only fight to protect whatever is left of their dignity and rights in order to survive. Most of those trapped do not care about Houthis or Hadi or any other party to the conflict, they only want to survive’.

A key question surrounding the conflict in Yemen is what will happen to the country once the war is over. With its infrastructure destroyed and social fabric torn apart, the humanitarian crisis in the country is likely to continue for some time to come, with spill-over effects in an already volatile region, particularly in countries such as Saudi Arabia and Oman which share borders, histories and kinship ties with Yemen. Security – particularly the expansion of ISIL and the AQAP – dominates conversations on the future of Yemen, yet the humanitarian crisis does and will have direct security implications.

Based on an analysis of Yemen’s humanitarian needs, the role of the private sector in humanitarian action and engagement by the international community in Yemen, our recommendations are structured to

address key communities of potential engagement at international and regional level.

To the international community and humanitarian actors:

- **Promote a discussion on the degree to which private sector humanitarian engagement is good for business**

Harnessing businesses for humanitarian and development roles is possible (and necessary). International actors such as the United Nations and humanitarian organisations such as the ICRC and international NGOs should support a live and active discussion on how and to what extent private sector humanitarian engagement is good for businesses, especially in regions where family, tribe and history matter. This can showcase innovative partnerships between business and the humanitarian sector in different ways, including providing advice, services and goods on either a commercial or charitable basis.

- **Design a roadmap for private sector humanitarian engagement, with specific deliverables and outcomes**

While the study demonstrated a willingness among the businessmen interviewed to expand their humanitarian roles, it was clear that they were uncertain about the part they can play and what exactly they can do to help. They were happy to help their communities, often in an ad hoc manner, but were unsure how to marshal their collective contributions into something more sustainable and far-reaching, both for their communities and for Yemen at large. This can be led and engineered by a taskforce that includes international actors such as the United Nations, in collaboration with local humanitarian actors and NGOs and international and Yemeni economists and experts that are not partisan towards either side of the conflict. Instead of big conferences where contributions may be edited for fear of being perceived as aligned with one political party or another, the process must include one-on-one consultations with Yemeni businessmen to engage them in drafting the roadmap. It may be useful to communicate humanitarian needs in business-oriented language.

- **Approach the business community as a partner**
Approaching the business community as a partner, rather than a funder or a local actor to outsource the response to, can help build sustainable relationships between these two worlds. While the priority is to facilitate the movement of goods

and humanitarian assistance, one partnership worth exploring between the private sector and the humanitarian community may be around providing humanitarian cash transfers, which requires in-depth knowledge of markets in Yemen and the strong participation of local businesses.

- **Create a go-to platform for the Yemeni diaspora to plan a post-conflict strategy**

While there are networks of Yemenis in the UK, Jordan, Oman and elsewhere around the world, there is yet to emerge an organised coalition of Yemenis with international backing to pledge resources that could be used to rebuild Yemen's post-conflict economy. In 2014, convened by CIPE, a Memorandum of Understanding (MoU) was signed between the Yemeni government (represented by the Ministry of Planning and International Cooperation) and the private sector (represented by the Federation of Yemen Chambers of Commerce and Industry) to initiate private sector engagement in economic growth and sustainable development. Little has materialised out of this effort, however, because of political unrest in Yemen and the lack of support from international actors. No framework for the implementation of a roadmap defined by the MoU was established.

To regional governments/the GCC:

- **Enhance and coordinate the Gulf region's role in humanitarian action**

With the emergence of the King Salman Center in Saudi Arabia and the ongoing development of national humanitarian policies (Qatar and UAE are examples), there is an opportunity to optimise the allocation and deployment of humanitarian and development funds in the Gulf to meet immediate as well as long-term reconstruction needs in Yemen. The government of Oman, as the only member of the GCC that has not taken part in the conflict, is well-positioned to lead a hybrid humanitarian/reconstruction strategy for Yemen, with strong input from the Yemeni private sector. Oman, with its shared border with Yemen, would directly benefit from contributing to the stability of neighbouring states.

In January 2017 GCC Secretary-General Dr. Abdullatif Al Zayani announced the imminent establishment of a GCC organisation to coordinate humanitarian efforts with regional and international organisations. This entity will play a critical role in coordinating the GCC region's contributions to the humanitarian response in Yemen.

3 Somalia

3.1 War, famine and the 'New Deal'

The humanitarian context in southern Somalia has been defined by mass displacement, conflict and, in 2011, famine. Since the collapse of the Somali state in 1990, the country has witnessed war (between 1988 and 1992), a large-scale UN intervention (in 1993–94), localised armed conflict (1995–2006), a brief period in 2006 under the control of the Islamic Courts Union and insurgency and counter-insurgency following the Ethiopian military occupation of the capital, Mogadishu, in late 2006 (Menkhaus et al., 2010). Somalia has also become embroiled in wider global processes around militant Islam and counter-terrorism policy primarily directed towards Al-Shabaab, which has been designated a terrorist entity by the United States and other Western governments. This complex and highly politicised environment, combined with consecutive rain failures and rising global food prices, contributed to a large-scale famine in 2011 in which an estimated 260,000 people died (Maxwell and Majid, 2016). Recent political and military strategy has focused on the so-called 'New Deal', entailing support to the Transitional Federal Government and military action by Ethiopian, Kenyan, African Union (AMISOM) and Somali government forces against Al-Shabaab. Other countries such as Turkey remain an important presence, particularly in Mogadishu.

Within this context humanitarian assistance has become highly politicised and fraught with security, reputational and fiduciary risks. Frequent attacks on aid workers by Al-Shabaab prompted the almost complete withdrawal of international staff and many agencies from southern Somalia (Hammond and Vaughn-Lee, 2012). Although Al-Shabaab has lost control of most of Somalia's urban centres, it is still present in many rural areas in the south of the country. Almost 5m people are considered in need of humanitarian assistance, and as of early 2016 some 1.1m were displaced, the vast majority of them in central and southern Somalia (OCHA, 2016). The operating environment for humanitarian agencies remains highly constrained; access is largely restricted

to major towns and cities and most humanitarian programming is implemented through arm's-length remote management arrangements, limiting monitoring and oversight and increasing the risk of corruption and the diversion of aid resources.

3.2 The Somali economy and private sector in focus

Following the collapse of the state in 1990, politically and demographically Somalia was reconfigured into three main areas: Somaliland in the north-west, Puntland in the north-east and South-Central Somalia to the south. Large numbers of the urban population of Mogadishu returned to towns and cities within their clan territories for safety, creating new markets, while other opportunities opened up in the space created by the absence of a controlling state, conflict and the country's changing demography (UNDP, 2001). Expanding towns became new centres of trade and business, consumer demand and business capital. In addition to these domestic changes, many Somalis fled the country as refugees, typically to Kenya (where many stayed) and on to the Gulf countries, Europe and North America. By 2000, an estimated one in six Somalis was living in the diaspora, one of the highest proportions of diaspora populations in the world (*ibid.*).

The two main drivers of the economy today are remittances and trade; indeed, the need to move money through family and business networks accounts for the dynamism and growth of the telecommunications sector, where some of the largest Somali companies are found. The scale and importance of remittances from the diaspora cannot be overstated, in all walks of life, political, economic and social. In 2015, remittances were valued at over \$1.3bn, supporting the livelihoods of an estimated 40% of the population and accounting for a quarter of Somali GDP (World Bank, 2015). This is substantially larger than development aid (\$642m) and humanitarian assistance (\$253m) combined (*ibid.*). Remittances are used to finance household consumption, property and business investment.

Remittances also move domestically within the country as many households have members dispersed between multiple locations (forced displacement, mobility and migration are prominent features of Somalia's society and economy).

Alongside remittances, Somali society has long been associated with a trading culture. The country has an extremely long coastline, with many small and several large seaports (and competing political and business hubs) at Berbera, Bosasso, Mogadishu and Kismayo. These ports, and the long and porous international borders with Ethiopia and Kenya, have encouraged Somalia's development as an *entrepôt* economy, supplying 'tax-free' imported goods to the much larger markets of East and Central Africa (UNDP, 2001).

Although there is a limited degree of public sector policy and regulation in northern areas, the economy is essentially 'informal' and largely unregulated, with the private sector (including diaspora groups) organising and providing virtually all goods and services in the country, including health care and education, alongside Western aid agencies and Middle Eastern and Islamic charities. In the absence of government intervention, private entrepreneurs have used three methods to regulate business relationships: "importing" governance by relying on foreign institutions in, for example, airline safety, currency stability and company law; relying on clans and other local networks of trust to help with contract enforcement, insurance and transmission of funds; [and] simplifying transactions' (World Bank, 2003: 1).

Businesses in Somalia can be defined by many different factors: geographical focus (domestic, regional, global); size (micro, small, medium, large); degree of formality; country of registration; degree of support for regulation; access to capital/credit; degree of commodity specialisation; political influence (at local or national level); and involvement with the formal humanitarian sector, among others. Clan identity and solidarity are key aspects of Somali society, including in the business sphere, where networks of trust act as a form of insurance and credit provision, enabling business to develop in the absence of a more formal regulatory system. Islamic identities and networks have grown in importance over the past decade (Carrier, 2016; Mahmoud, 2010), although the distinctions between personal, business and 'Islamic'-based networks can be blurred, and businesses may adopt, support or change their allegiance depending on the prevailing

business environment at the time (Ahmad, 2012). The rise of the Islamic Courts Union in 2006, for example, was supported by the Hawiye business community in Mogadishu, and represented a shift in political interest away from factional clan-based loyalties to an alternative means of government and the use of *sharia* law (Barnes and Hassan, 2007: 3).

Three main types of business predominate: telecommunications and money transfer; agriculture and livestock; and trade and transport (both of goods and people). Telecommunications and money transfer (*hawala*) enterprises are critically important in facilitating trade, investment, household income and consumption. Both Somali *hawala* and mobile money systems (EVC) provide reliable and low-cost means of moving money around, domestically and internationally. The two largest companies in this field (and in the Somali private sector as a whole) are Dahabshil, the dominant economic actor in Somaliland, and Hormud, which occupies a similar position in Mogadishu and the south.¹⁴ Both 'super-companies' are monopolistic and politically influential. Although there are other smaller companies in the sector, they struggle to compete with the big two.

Dahabshil, as the largest Somali *hawala*, has been extensively used by humanitarian actors over the last 20 years to facilitate money transfers between Kenya and Somalia for operational purposes, as well as as a sub-contracted partner in the implementation of cash-based programmes. Organisations such as Hormud and Dahabshil are also important development and humanitarian actors in their own right, with charitable foundations able to call on significant annual budgets. The charitable foundations of organisations such as Hormud and Dahabshil operate largely independently of the main humanitarian sector, and work according to their own principles and informal mechanisms, relying on their own informational and business networks. Representatives occasionally attend meetings and events with humanitarian agencies, but these contacts are thought to be limited. These foundations have previously acknowledged their lack of internal policies and procedures and have expressed interest in formalising these processes, but it is not clear to what extent this has happened.

¹⁴ Hormud developed out of the *hawala* Al Barakat, which had its assets frozen following the 9/11 attacks in 2001 as a result of unproven allegations of association with proscribed groups (Lindley, 2007).

In the 2011 famine, Hormud and Dahabshil conducted their own assessments and funded and delivered cash, food, water and other goods to the main displacement centres in Mogadishu and Baidoa (Maxwell and Majid, 2016). These and other private sector responses were implemented in the weeks and months before the mainstream international humanitarian response got under way (*ibid.*). Some *hawala* reportedly waived their commission fees for money sent to support the relief effort. Other crises have also attracted donations and responses from the private sector, but these are generally not well documented (Majid et al., 2007). Many local businesses also extend credit to their customers in difficult times, in what can be seen as a form of humanitarian action, or services usually supplied for a profit, such as water trucking, may in extreme circumstances be given for free.

There are a number of reasons why large enterprises and other private companies engage in (developmental and) humanitarian action, including a strong Islamic moral obligation to support the poor and a recognition that doing so may improve their image among existing and potential customers, as well as loyalty and a sense of moral obligation towards their clan territories. Somali society is renowned both for its strong social reciprocity and support for the poor and for its highly politicised and divided character, with the former most prevalent within family and clan relations, and conflict and exclusion often taking place across clan boundaries. Businesspeople, whether large or small, are typically part of extended family and sub-clan networks, and as wealthier members of society (somewhat) insulated from the impact of natural disasters such as droughts, are expected to support poorer or more vulnerable people in difficult times.

Agriculture and livestock production and the trading of these products are major sectors in terms of livelihoods and employment across southern Somalia. The majority of Somali households own at least some livestock, with varying combinations of cattle, camel, sheep and goats (see www.fsnau.org). Livestock is produced for local markets and for export. There are two major livestock export 'systems': one links northern and central areas of Somalia (and the neighbouring Somali region of Ethiopia) with export markets in the Middle East, especially Saudi Arabia (which imposed export bans over ten years ago due to the lack of credible health certification) (Majid, 2010); the other links southern areas of Somalia (and Ethiopia) with Kenya (Hussein, 2010). Within the

pastoral economy there are well-established relations between traders and herders, whereby traders supply herders with goods in remote areas during the dry season on a credit basis, which herders repay when the rains come and the value of their animals increases.

Agriculture is primarily located in the south of the country, along the Juba and Shabelle rivers and in inter-riverine regions (there is relatively little agricultural production in northern Somalia). Main agricultural products include cereals, pulses, fruit and vegetables. The two main domestic cereal crops, maize and sorghum, are largely grown for domestic consumption and are traded locally. Sesame is an important domestic and exported cash crop whose production and economic value has been increasing in recent years. While most farmers and herders operate on a small scale, there is a larger commercial farming sector along the lower reaches of the Juba and Shabelle rivers. These enterprises produce fruit and vegetables (including sesame and limes), and are important sources of employment. Relationships between traders and producers are often maintained through credit and trust, with a commercial buyer looking to guarantee their commodity supply by providing credit. There may, however, be hidden vulnerabilities in these relations; traders in Mogadishu, for example, are reportedly encouraging farmers to switch to sesame production by extending credit to enable them to do so. While this may provide healthy returns when rains are good, it may also increase vulnerability during droughts as less cereal is produced (see Maxwell and Majid, 2016). In addition, sesame buyers are reported to be fixing prices in order to maximise their profits.

Livestock production and agriculture are closely linked to trade and transportation, the largest sector within the Somali economy in terms of the number and diversity of businesses. With a very limited manufacturing and processing base, Somalia is a net importer of many commodities, including food, construction materials, fuel and household goods. In turn, these goods need to be moved from seaports to interior markets, as well as through Somalia to larger neighbouring countries and markets, while domestically produced livestock and agricultural products must be transported between sources of supply and demand and onwards to export markets. In line with the *entrepôt* character of the Somali economy, many of the goods coming into the country via the ports at Bosasso, Mogadishu and Kismayo are

then moved on to Kenya and Central Africa. Most goods destined for Ethiopia go through Berbera in the north, and there are strong trading connections between Bakkara market in Mogadishu and Eastleigh in Nairobi (Abdulsamed, 2011; Carrier, 2016).

Traders range from the largest import companies to individuals (primarily women) engaged in micro or petty trade. Some importers only sell their goods at the port of entry, and do not engage in any further distribution themselves. Other large-scale importers also organise the delivery of goods. Large-scale importers sell their goods to medium- and smaller-scale traders and distributors; some of these buyers may have retail outlets in the port city of arrival, or may organise the transportation of their goods to smaller towns and settlements in the interior. The main regional capitals tend to have a small number of larger traders; for example, Baidoa, the capital of Bay region, has just two large-scale traders, who buy a wide range of goods from importers in Mogadishu and organise the onward transportation of these goods to Baidoa, where they both have stores. Small traders (shopkeepers) in towns and other urban settlements sell their own goods through their own outlets and also sell to micro or petty traders, usually women, who sell a small range of goods for a marginal profit.

The movement of goods between markets is organised by transporters, some of whom may also be traders. Small-scale firms owning one or a handful of vehicles predominate, and many vehicles have multiple owners; according to respondents, the largest transportation enterprises own no more than 20–30 trucks. Trucks transporting goods from central markets to secondary or tertiary markets are often used to bring agricultural produce from rural markets to primary and possibly export markets, and can be organised on a barter basis. Brokers or middle-men are commonly used to help organise and coordinate transportation, both in relation to the private sector and as the interface between the private sector and humanitarian agencies.

In the absence of regulation and formal insurance arrangements, relationships of trust and credit, whether based on clan identity or Islamic networks, are key features of the trade and transportation sector. As one small trader in Qorioley put it: 'I do get credit from some suppliers but I pay them quickly as soon as I sell the goods or even before that ... they trust me and they know I will return the money quickly so giving me goods on credit is like selling it to them'.

Credit is typically provided down the system, from larger-scale businesses to medium- and smaller-scale actors, down to micro-enterprises. Credit may also work to guarantee markets and customers as larger traders seek to make medium and smaller traders dependent on them through the provision of credit.

While the Somali private sector has shown great adaptability and resilience, the insecure and unregulated environment in which it operates presents formidable challenges. By far the biggest complaint of businesses of all sizes in Somalia concerns the 'taxes' they are forced to pay, both to the government and Al-Shabaab. Payment is extorted at roadblocks and checkpoints along major transport routes, and Al-Shabaab levies taxes on businesses both centrally and at local level in what amounts to a protection racket. Al-Shabaab also imposes a regular *zakat* tax, as well as ad hoc requests for 'contributions'. Large companies such as Hormud report that their local offices are regularly closed due to threats by local criminals, government soldiers or Al-Shabaab fighters looking for payment. One respondent details the costs of such taxation as follows:

We have to pay the government between \$2,000 to \$2,500 per loaded truck. On top of that we have to pay AS [Al-Shabaab] \$850 per loaded truck; \$400 is to be paid by the owner of the truck and \$450 by the owner of the goods. The whole amount is passed to the owner of the goods in the end. When the goods come to the doorstep of my stores, I have to pay \$70 as a tax for the town. I don't pay anything else.

The absence of any significant regulatory authority can also impose significant costs. The quality of some goods and services, including human and livestock drugs, health services and private education (the dominant form of education provision) can be problematic, as the Saudi ban on livestock imports illustrates (see Buckley et al., 2015). While Somali businesses such as Hormud and Dahabshil have expanded enormously and have become large, diverse and profitable in this unregulated environment, they have also come to dominate their sectors, limiting competition, restricting access to new entrants and preventing the expansion of smaller providers (World Bank, 2015).

Considerable international pressure to comply with anti-corruption, money-laundering and counter-terrorism measures is another major constraint, and a preoccupation for both the private sector and

humanitarian agencies. Somali *hawala* companies in particular have faced increased pressure in this regard, with many international banks suspending their ties with money transfer enterprises.¹⁵ In 2015, the Kenyan government imposed a three-month ban on Somali *hawala* following an attack by Al-Shabaab in Garissa in which 147 people were killed. Pressure for compliance with international counter-terrorism measures is also a major constraint to closer collaboration between the humanitarian sector and the private sector, as the latter must deal with Al-Shabaab in order to continue doing business.

3.3 Humanitarian aid and the private sector in Somalia

3.3.1 Food assistance

The largest area of aid engagement concerns the contracting of the private sector to deliver humanitarian commodities. Historically, food aid has comprised the largest (i.e. highest value of contracts) area within this field: a review of the World Food Programme (WFP)'s portfolio from 2006–2010, for example, put the value of the agency's contracts with the private sector at over \$800m (Nicholson et al., 2011). Issues of corruption and diversion have dogged food assistance operations in Somalia (and other sectors as well), reflecting the deeply embedded political economy of aid in the country (see Ahmad, 2012; UNDP, 2001 for further examples). As a result of several high-profile cases, including a damning report by the UN Monitoring Group (UNMG) in 2010 – strongly challenged by WFP – that up to half of WFP food assistance was being diverted (UN Monitoring Group, 2010), risk mitigation and anti-corruption measures have become a major focus within the humanitarian sector.

Al-Shabaab's hostility towards aid agencies is a further complicating factor; both WFP and CARE were forced to suspend their activities in southern Somalia in 2009–10, and both organisations were subsequently banned by the group. Several private sector informants interviewed for this study expressed reservations about engaging with humanitarian actors for fear of reprisals by Al-Shabaab. As the respondent complaining about taxation quoted above put it: 'I don't deal with

agencies because that will bring me problems from AS'. Another trader, in Baidoa, told the study:

The problems we face are mainly security problems. I have to hide the fact that I am dealing with [aid agencies] but how can I hide when I have to distribute food openly. It will be known in the whole area ... If there is a contract from an NGO now I wouldn't take it because it brings security problems as AS will start targeting me and I am a businessman and need to be able to move around freely without fear.

One Mogadishu-based trader reported that NGOs were providing assistance 'secretly, sending food, medicine and money, using traders and contractors':

Let alone NGOs even the traders feel squeezed and threatened when they go to AS areas. Only those whom they approve of and trust can go there without hindrance.

3.3.2 Cash programming

Cash programming is another major area of engagement between the private sector and humanitarian agencies. Indeed, Somalia – with its well-established and extensive *hawala* system – has been something of a pioneer in the development of cash-based interventions in humanitarian response (Ali et al., 2005; Majid et al., 2007). One of the largest cash-based emergency responses in humanitarian history was during the famine in 2011–12, with programmes totalling over \$150m reaching some 1.5m people. Typically, the humanitarian agency manages beneficiary identification and selection, while the *hawala* company manages the physical movement and sometimes distribution of the cash. Early cash interventions in the first half of the 2000s (prior to the expansion of Al-Shabaab from 2007 onwards) relied on the credibility and reliability of the *hawala* and the ability of the trading sector to meet increased demand and purchasing power in areas receiving funds (without causing inflation). More recently, cash programming, like other sectors, has been affected by corruption, but cash remains a common form of humanitarian assistance in Somalia.

3.3.3 The aid economy

Aid resources, for instance associated with office and car rental, security and employment, are a significant factor in local economies in Somalia, and have been for many years: during the early 1990s, for example,

¹⁵ See Adeso/Global Center on Cooperative Security/Oxfam (2015) for a detailed discussion.

UNISOM's annual budget was \$1.5bn, and a large number of contracts were made with the private sector. The economic effect in a very poor environment, particularly in the urban areas where agencies reside, is significant and is commented upon as such by local traders and other observers.

A number of key informants from the private sector distinguished between what they called the 'real' private sector and the brokers and actors who win contracts from humanitarian agencies. Traders interviewed in Bakhara market in Mogadishu, for example, noted that those who win the contracts are not found in the market; they are brokers or middlemen with the contacts and skills to produce the necessary documentation. Some of these contractors have their own companies and vehicles, while some sub-contract other traders to fulfil the contract. As one interviewee in Baidoa explained:

I didn't bid for the contracts but someone who was not a businessman bid for it and then he used me to deliver the food he was supposed to deliver. I know how to do business but do not know how to bid for contracts and deal with the NGOs. This is a skill that I don't have. Those who worked for the NGOs or the government know these systems so it is them who bid for these.

This raises a number of important questions. At some level, such relationships can be part of a process of collusion and corruption, as is alleged with the WFP case in 2010. Having the right contacts and 'knowing the system' may well be critical in gaining contracts, but it also raises the issue of the capacity of the private sector, in terms of documentation and administrative and financial processes. A small-scale trader in Mogadishu, who has several contracts with an international NGO working with IDPs, commented:

I participate in the vouchers scheme where people in IDP camps and surrounding communities are given vouchers and they exchange it with food at my stores. This is a good contract for me as I sell a lot of food. You have to have connections to participate in these schemes. Most of the shop owners don't have the skills needed to succeed in getting these contracts. I don't have these skills either but I have someone in the NGO that awards the contract that helps me with it. He shares the profits with me.

Other key informants from well-respected NGOs interviewed pointed out that they try to give contracts to local traders in order to provide wider local benefits and avoid upsetting local actors by bringing in an outside contractor. A number of Somali NGOs interviewed for this report claimed that, in their operating contexts, local traders can be an important source of credit, enabling them to continue operating in the interim while funding arrives. In return, the traders are promised preferential access to a new contract. In other words, local NGOs and the private sector may sometimes exist in a symbiotic relationship, where the boundaries between corruption, collusion and collaboration may be blurred. For international organisations this necessitates detailed understanding of the local context to be able to navigate this challenging terrain and support local organisations while also meeting requirements on reporting and accountability.

3.3.4 Risk-sharing

In the highly volatile, risk-laden environment of southern Somalia, the (lack of) risk-sharing between international and national agencies has been widely commented on within the humanitarian sector, and is a major area of concern. It is also commented on in the relationship between the humanitarian sector and private contractors, including this complaint from a Nairobi-based business group:

In the contracts the agencies are always in the safe side and risk averse. They actually want you to carry all the risks. For example we were carrying a cargo for an agency. This cargo was attacked and burned down near Bosasso by Al Shabaab. Our trucks were also burned down but we had to pay to the agency full compensation of the total cost of the cargo. We felt bitter about this but continued our operations. [The UN] is the worst in this regard; they are not interested in your problems.

Another respondent noted the discrepancy between agencies' strict procedures and policies regarding risk, and the higher risk thresholds they expect contractors to accept:

Agreements seem to be one-sided where agencies are dictating and passing all the risks to companies and partner organizations. They should shoulder some of the risk and be more understanding. If they want to be strict, they should also allow us to be as strict as they are.

Normally they want you to be understanding when they commit mistakes but are very aggressive when anything goes wrong even if it is not your fault at all.

This may be an extreme example, but it probably reflects wider tensions and challenges in the relationship between humanitarian and private sector organisations linked to the context and the regulations and restrictions that humanitarian agencies are tied to. Short-term staff deployments were also an issue; according to the same respondent:

Turnover of staff and lack of local knowledge is the problem. The staff stays for short time and as they are gaining some knowledge they are transferred to another country. You are dealing with someone knew all the time. Delays in payments must be reduced. You have agreement for payments to be made in 30 days but the normal payment time becomes 90 days!

These tensions call for a stronger dialogue between different actors to strengthen partnerships and build trust.

3.4 Conclusion

Somalia has expanded its role as a trading hub and entrepôt economy within the wider Horn and Central African regions. This evolution is a function of its geographic location (with four major seaports), a well-established trading culture and networks, financial innovations and a minimal regulatory environment. This context has allowed the private sector to develop and adapt to changing circumstances. In particular, it has led to the growth of a small number of large companies in telecommunications and international trade, and an extensive network of medium- and smaller-scale traders and transporters, many with connections to neighbouring countries. Actors within these sectors are linked to the humanitarian sector, typically as sub-contractors for the delivery of humanitarian commodities.

The volatile political and security context has provided a fairly constant background for the private sector. A major way in which these actors manage this environment is through their ability to utilise their own social networks (based on trust and local knowledge) to minimise risks and overcome social and political differences and barriers. Private sector actors

are also often forced to pay for their own protection or just to maintain their activities (through various forms of taxation). The Somali private sector is run on a very informal basis, with limited formal processes and procedures, including documentation.

The health and vibrancy of the Somali private sector is directly linked to the vulnerability and resilience of Somalis through the family and clan connections of the people who work in the sector. At the same time, the private sector taken as a whole is in a particularly difficult position, and is facing multiple pressures and threats: a nascent government supported by the international community, with limited power, presence and credibility, is attempting to assert itself through policy, regulation and taxation; Al-Shabaab remains a significant presence; and there are international threats to the money transfer system that is the lifeblood of the Somali economy. The health of the private sector is clearly fundamental to the economy, to the livelihoods of Somalis, and to the private sector's role as a humanitarian actor in its own right, working through family and clan networks to support poorer people in times of need.

For its part, the humanitarian sector in Somalia, as an actual and potential partner of the private sector, has been described as both politicised and fragmented (Humanitarian Futures, 2012; Maxwell and Majid, 2014). Risk-mitigation measures, including compliance with anti-corruption and counter-terrorism measures, and high security threats (especially for the government and the United Nations) are powerful constraints to effective and impartial humanitarian action. Within this context, a lack of institutional memory and high staff turnover limit the possibilities for learning lessons from the past and building relations and trust within the humanitarian sector, and between it and the private sector.¹⁶ At the same time, however, both have to some extent evolved symbiotically; indeed, resources from the aid 'industry' have played a significant role in the growth of the private sector (and of specific actors within it). Disentangling the negative aspects of these relationships – as part of a deeply embedded political economy of aid – from the undoubtedly positive experiences and innovations that also exist would require further research, as little has been documented

¹⁶ Many of these issues are not specific to Somalia, although informed observers suggest that Somalia is at the more extreme end of what has been called a 'humanitarian malaise' (Humanitarian Futures, 2012; Maxwell and Majid, 2014).

and much exists in the form of one-to-one relations between specific agencies and specific private sector actors (some examples of both have been highlighted above, and most are based on well-established relations between Somalis).

3.5 Recommendations

One of the main recommendations of a recent study (Humanitarian Futures, 2012) merits repeating:

Create a more coherent body of knowledge on commercial capacity and engagement for contemporary humanitarian crises in the region.

This recommendation remains valid; indeed, given the considerable scrutiny that the humanitarian sector is under today, it is arguably even more imperative. There is 25 years of experience of engagement between the private sector and humanitarian actors in Somalia. This has resulted in a deeply embedded political economy of aid, but also a context rich in positive experiences. Many agencies, particularly at the field level, have developed good relations with local businesses, but there has been no systematic or in-depth analysis of this considerable experience.

Some of this body of knowledge needs to be in a 'live' form (rather than documentation). Agencies such as OCHA could experiment with employing private sector focal points to identify key private sector actors and interlocutors, create links, build relationships and explore new modes of engagement that consider the full scope and limits of both sets of actors. There are changes taking place within the Somali economy, and developing a body of knowledge on these new dynamics and their implications for vulnerability and resilience should be part of risk analysis and contingency planning. Some issues, notably the threat to remittances posed by international regulations, are relatively well-known, and have attracted analysis and advocacy, but the encouragement of sesame production, for example, is not well understood, and may increase household vulnerability to market price shocks.

Recommendations to the international community and humanitarian actors:

- **Identify and develop areas of mutual interest where trust can be built**

Given the pressures and tensions that currently exist within the humanitarian sector as well as

between the humanitarian sector and the private sector, opportunities to build trust and relationships should be sought. One example is analysis and advocacy around remittances: a well-functioning money transfer system has immeasurable value for the Somali diaspora, their recipients in-country, the private sector and humanitarian agencies. Efforts to support this have been significant, but also arguably sporadic, under-developed and invisible, and are not part of a sustained dialogue and engagement with the general public and the private sector. This could also foster stronger dialogue and collaboration/coordination with major Somali firms such as Dahabshil and Hormud.

Many businesses have a local focus and commitment, reflecting the clan territories in which they are based. Developing relations and exploring potential areas of engagement between such businesses and international humanitarian actors may well be more productive in instances when doing so is organised around particular issues and concerns (needs, risks, vulnerabilities, access) in specific localities or along particular trade routes or market chains.

Business networks could be fostered by international actors including the UN, NGOs and the private sector as part of knowledge development and trust-building. This could include national or regional Chambers of Commerce. These would have to be developed according to appropriate themes of interest to the potential members.

- **Invest in administrative and financial capacity-building**

Private sector organisations are limited in terms of their internal capacity (financial, administrative) and therefore their ability to obtain contracts from agencies. One of the repercussions of this is the incentive it provides for collusion between agency staff and private organisations, and/or the use of brokers or middle-men, with their associated risks of actual or perceived corruption within the sector. In this light, exploring and developing common mechanisms for monitoring and accountability may be beneficial for building trust, as well as increasing competition for tenders. Capacity-building could also support training in humanitarian standards (as is already taking place), in particular in relation to cash programming, where *hawala* are the focus.

- **Increase accessibility to early warning and market information**

The food security early warning and information systems in Somalia (the Food Security and Nutrition Analysis Unit (FSNAU) Famine Early Warning System (FEWSNET)) are amongst the most advanced in the world. Their outputs are,

however, little used by the Somali diaspora or the private sector. Identifying the information needs and interests of these two groups, and possible platforms for sharing information and developing common analyses, could be linked to improved humanitarian preparedness and response.

4 Pathways for private sector engagement in humanitarian action

In May 2016 the World Humanitarian Summit saw the launch of the Connecting Business Initiative (CBI), bringing together 11 national private sector networks representing hundreds of companies worldwide. The aim is to assist local businesses to create platforms for disaster risk reduction, emergency preparedness, response and recovery, and create a global portal for national, regional and global humanitarian actors. While this is a step in the right direction, the conclusions and recommendations below emphasise the need to ensure that CBI and other networks and initiatives for engaging the private sector in humanitarian action are evidence-based, recognise the critical role of the local private sector, and take into account local challenges, as well as opportunities.

This preliminary research on Yemen and southern Somalia has highlighted a number of key issues related to local private sector engagement that might guide future engagement between the humanitarian and private sectors in complex emergencies.

Overarching conclusions from the study are as follows:

The humanitarian potential of the private sector in conflict situations is still poorly understood

The studies have demonstrated the need for further in-depth and context-specific research on the opportunities and challenges facing the private sector in emergencies. Far from being absent from conflict, the private sector is emphatically present in countries in crisis. The local private sector is a crucial element of the response to crisis, central to many coping mechanisms and vital to the future livelihoods of vulnerable people. The private sector can be a good source of information and guidance on distributing assistance and accessing affected populations. Because they are part of the local community, businesses are there first, and can be good partners in a humanitarian intervention. Even though they can be mistrusted

by humanitarian actors, and may not be driven by humanitarian principles, they nonetheless have legitimacy within the community. This can also make them vulnerable as they are part of the local and national political economy. Understanding the markets and political economy within which the private sector operates – the capacity of traders, population demand, competition, the influence of external factors and so on – may also help humanitarians understand how best to engage local businesses in a response.

The private sector plays different humanitarian roles in different contexts but has the institutional capacity and know-how to become a partner in humanitarian response

Local businesses are well-positioned to play more active roles as relief providers on the ground, but this varies by context. The private sector, including groups in the diaspora, has substituted for the state in Somalia, for example organising and providing goods and services throughout the country, including healthcare and education, as well as being major contractors to humanitarian agencies. In Yemen the private sector operates in parallel to the state, which is still functioning, though at a much reduced level due to the conflict.

Local businesses have more at stake than international counterparts in a conflict, and as a result may be more willing to invest in a humanitarian response to help stabilise the situation

This study has focused on the role of local businesses rather than global or multinational firms. Local businesses are vulnerable to changing markets, insecurity and political uncertainty, but are also embedded in local communities and able to adapt to changes in the situation. For local businesses, the local market is their primary concern. For multinationals, risk aversion and uncertain business benefits create barriers to entry to new markets. The connections

between international and local businesses are also poorly understood. Reducing these barriers and enhancing connections would help unlock the potential of the private sector in humanitarian action.

Below are recommendations on how the role of the private sector in humanitarian action can be augmented.

- **Strengthen the links between local and international businesses, and between business and the humanitarian sector**

Greater awareness is needed of the ways in which international companies can partner with humanitarian agencies and the local/regional private sector, and the possible tensions with humanitarian principles. Developing further case study examples and communicating success stories (and examples of challenges) with both communities would help in developing a common understanding of concrete models for stronger collaboration. Further documenting the long relationship between the aid and business communities in Somalia would be highly relevant to many other crises, including Yemen. The precise form would best build on existing coordination mechanisms and networks, such as cluster coordination and NGO fora, but a platform through which private sector and humanitarian actors can come together would be an important part of this. Dedicated private sector focal points in the humanitarian community would help to build more consistent communication between the two sectors.

- **Convene discussions to chart constructive responses to counter-terror requirements**

Complying with international counter-terrorism measures is a major constraint to closer collaboration between the humanitarian sector and the private sector. There is a role for international organisations and donor countries in convening discussions at global and regional levels between regulators, financial service providers and humanitarian organisations to find practical solutions which can balance the need for compliance with the urgency of humanitarian action.

- **Actively integrate business engagement in humanitarian action within the wider corporate sustainability movement and lexicon**

The UN Global Compact constitutes the largest corporate sustainability initiative worldwide,

but it is yet to integrate corporate engagement in humanitarian action within its movement and is not yet sufficiently engaged with the local private sector. The ‘sustainability’ language can bear upon the humanitarian sector via engaging local businesses in a sustained manner and not on an ad hoc basis. This includes engaging local businesses in disaster risk reduction, emergency preparedness, response and recovery. The private sector can provide important skills and capacity to the humanitarian community, but the lack of a common language, procurement processes and different ways of working can create unhelpful barriers and reduce the pool of potential partnerships. The Global Compact can be a place to start developing a common language and a conversation about how the private sector and the humanitarian community can work together in a response.

- **Networking networks: convene business networks at country and regional levels**

Existing networks of local businesses need more support from international partners, particularly in sharing technical expertise and best practices. While some chambers of commerce may be politically partisan, other trade and business networks can provide solid entry points for international companies as well as humanitarian organisations. However, these networks can lack institutional capacity and connections. CIPE’s Economic Reform Taskforce (ERT) for Yemen is a case in point, and an example of the potential of such networks. In March 2012, CIPE and the Studies and Economic Media Center (SEMC) brought together 15 business leaders, including business owners, executives and leaders from the Yemen Business Club, the Yemeni Chambers of Commerce and Industry and local Chambers of Commerce. These participants developed a ‘Private Sector Vision’ which articulated priorities for democratic governance and economic reform in Yemen. The humanitarian sector can harness such networks as entry points to stronger dialogue with the private sector at both country and regional levels.

- **Understand the links between private sector and market-based approaches in complex emergencies**

Current market-based programming by humanitarian organisations focuses on how they can use markets to distribute assistance and deliver services (Harvey, 2007). In doing so, however, agencies often fail properly to understand how

crises affect private sector actors, including the impact of aid and the provision of services, or how they react and reposition themselves. Market-based approaches need to take account of these issues to avoid contributing to negative outcomes, both for the private sector and for how markets function.

The role of the private sector in shaping markets, and the important part that markets (or their failure) plays in the humanitarian dimension of conflicts, should be further explored through research, use of political economy analysis and convening discussions between multiple stakeholder groups.

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