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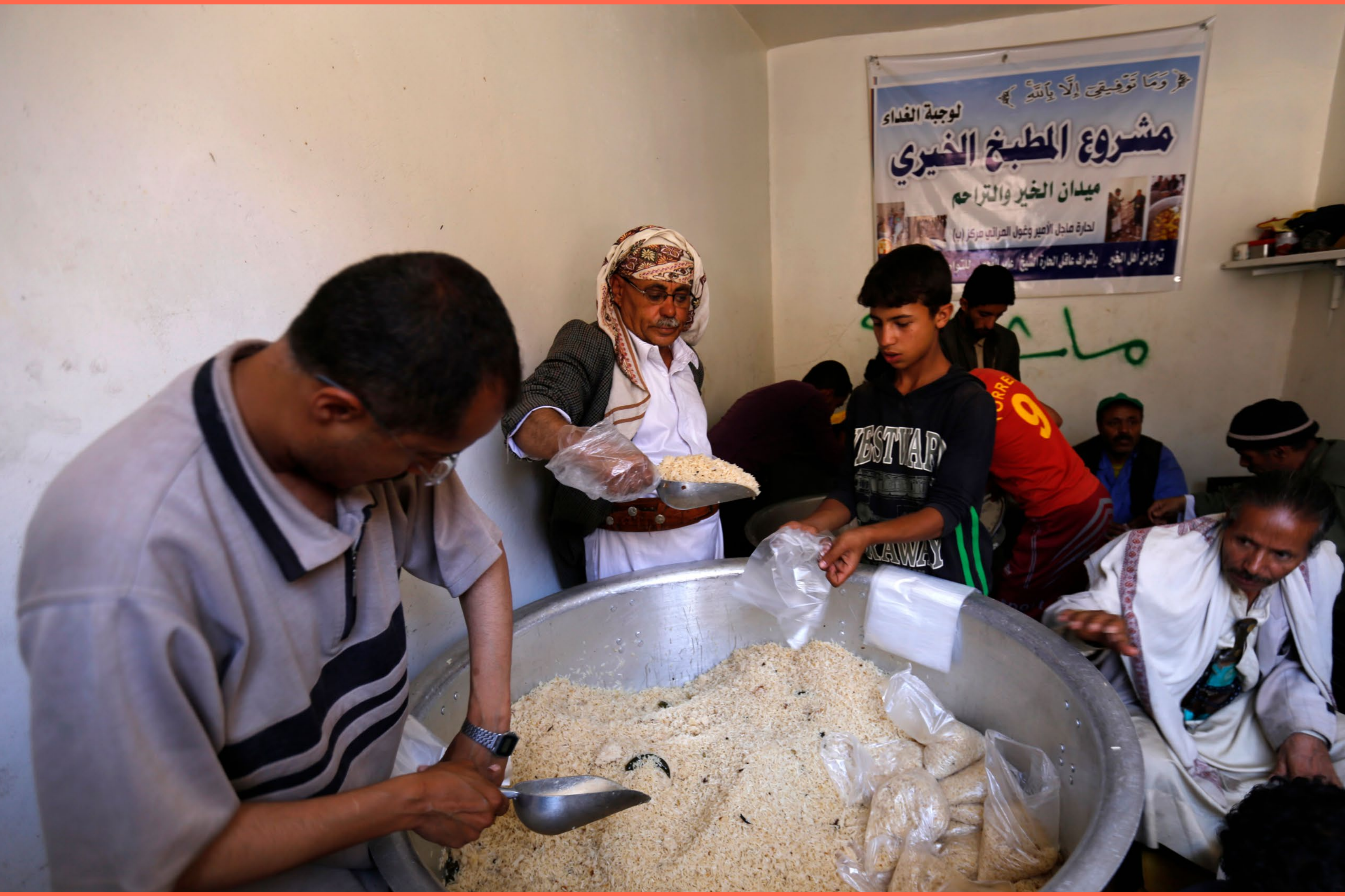

Bickering While Yemen Burns: Poverty, War, and Political Indifference

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About the Author

Peter Salisbury is a senior research fellow at the Royal Institute of International Affairs, a London-based think tank better known as Chatham House. A journalist and political economy analyst, he has written on Yemen for Chatham House, The Economist, The Financial Times, Foreign Policy, VICE, the World Bank, and the United Nations. The contents of paper reflect the findings and views of the author. He was assisted in his research, thinking, and analysis by Nadwa al-Dawsari, a nonresident senior fellow at the Atlantic Council; Khaled Hamid, a Yemeni economist and analyst; and Rafat al-Akhali, a Fellow of Practice at Oxford University's Blavatnik School of Government and a co-managing partner at DeepRoot, a Yemen-focused political economy consultancy.

Executive Summary

March marked the second anniversary of Saudi Arabia's intervention into Yemen's civil war at the head of a coalition of Arab military forces. The coalition's entrance was meant to end the war in a matter of weeks or months but has instead embroiled Riyadh and Abu Dhabi – the kingdom's main partner in the coalition – in a complex, multifaceted conflict.

Much attention has been paid to the direct impact of the war on civilians through street fighting, indiscriminate shelling of urban areas with artillery, and airstrikes, along with the use of landmines and cluster munitions. However, the war – the latest in a succession of conflicts in Yemen – has also had a devastating effect on the economy in what was already the Arab world's poorest country, pushing millions of Yemenis from humanitarian crisis into what aid agencies warn will soon be outright famine.

The economic crisis comes at a time when aid agencies, traders, and government institutions are struggling, for a variety of reasons, to deliver much-needed basic goods, and when prices are rising to the point where a large proportion of the population simply cannot afford to eat, in no small part because the overall economy has ground to a halt. Most unsettling, this is a man-made crisis. Many of the limiting economic and logistical factors are driven not so much by the violent nature of the war but by political decisions being made by the parties to the conflict.

This paper was researched and written in late 2016 and early 2017. Based on a series of interviews, on-the-ground research, hard data, and other reporting from key international and local organizations, it builds a narrative of the historical roots and evolution of the economic and humanitarian crisis that predated Yemen's civil war. It then discusses the current context and offers recommendations for international policymakers for addressing Yemen's humanitarian and economic crisis.

Key Findings:

- Yemen is in the midst of a deeply complex humanitarian and economic crisis that will not be resolved by a formal end of hostilities, and which threatens the prospects of millions of Yemenis for decades to come.

- The structural drivers of the crisis include a population dependent on subsidized fuel and mass imports of basic commodities, particularly rice and wheat; an economy supporting 26 million people largely dependent on an ailing hydrocarbon sector; a foreign exchange crisis; unsustainable domestic debt; and widespread underdevelopment. These problems have been exacerbated by decision making that has consistently prioritized political gains over human lives.

- Humanitarian delivery and access has been constrained by a de facto naval blockade, the closure of Sanaa airport, the politicization of aid by local militias and other national and regional actors, and a collapse in the wider economy as well as by frontline fighting, particularly in the city of Taiz.

- The ability of traders and other businessmen to bring basic goods like food and fuel into Yemen has been constrained by a combination of naval interdictions of cargo ships entering the country, damaged infrastructure, and issues in the domestic and international banking sectors. These constraints have helped cultivate black and gray markets that directly benefit the key armed groups fighting the war.

- Yemen's public sector, already overstretched at the beginning of the war, has been strained to the breaking point, particularly the health ministry, and the politicization of state institutions has served to further damage their effectiveness.

- Corruption has spiraled since the beginning of the conflict, and the war has become a moneymaking venture for many armed groups and a new cadre of economic players, creating an incentive system for many people involved in the war to continue fighting.

- Increasing dependence on less formal trade routes and delivery mechanisms has facilitated the flow of arms and other illicit materials into the country, deepening the conflict.

- Since the beginning of the war, the international community has been forced to devote considerable time and energy to mitigating the repercussions of decisions made by the legitimate government of Yemen, the Saudi-led coalition, and the Houthi-Saleh alliance.

- In the case of a number of these decisions, foreign powers have repeatedly cautioned against the actions taken only to find their voices ignored, as with the naval blockade of Yemen during the early days of the war and the relocation of the Central Bank of Yemen from Sanaa to Aden without sufficient planning.

- State control of local institutions varies hugely on a regional basis, with government in some parts of the country largely run by local leaders with little input from either the rebel-led administration in Sanaa or the legitimate government, which operates between Riyadh and Aden.

- A long-planned assault on the Red Sea port of Hodeidah by the Saudi-led coalition would undoubtedly lead to shortages of many staples and rocketing market prices while doing little to weaken the resolve of the Houthi-Saleh alliance to continue the war – and could actually enhance its control over revenue-generating trade routes.

Recommendations for International Policymakers:

- Recognize that alleviating Yemen's economic and humanitarian crisis is as important as ending the conflict, which in all likelihood will continue for many months if not years. If the war continues, deaths from starvation and preventable diseases may soon outnumber those incurred in combat.
- Recognize that planning for a postconflict future, while important, should not be the top priority. Follow the World Bank's lead in finding ways to work on the ground through local partners.
- In aid and stabilization preparations, plan and budget for armed hostilities to continue, even in the event of a peace deal or cease-fire arrangement.
- Work with the Yemeni government and the Gulf states to ensure that the Central Bank of Yemen is capitalized with riyals and foreign exchange. If funding cannot be found in the Gulf, look for other sources of hard currency.
- Work to foster communication between staff in the Sanaa-based central bank and the new headquarters in Aden, possibly by setting up a coordinating body in a third country.
- Ensure that civil service payments are made, possibly by setting up a United Nations-overseen fund and distribution mechanism.
- Avoid a military assault on Hodeidah port, and ensure it continues to provide trade access to the bulk of Yemen's population.
- Give the World Bank's experimental program the full support of the international community; it should be monitored regularly, and a much larger level of funding should be considered for the future.

Introduction

In 2011, in Yemen's Tihama region, an 18-year-old woman, Anisa, was living in a small straw hut with her daughter, Amina, a little less than three years old but barely bigger than an infant. Until a year before Anisa and her daughter had lived on income from her husband, a fisherman. He drowned at sea. Since, Anisa was depending on what little money her unemployed father could give her, and donations of food from other villagers, who in turn would eke out an existence on remittances from relatives in bigger towns and cities, and family members living and working in the neighboring Gulf states.

The sheer strength of Yemen's social fabric has long baffled aid workers. Most developmental metrics have forecast of famine for years. But Yemeni families and communities have been a safety net in and of themselves, somehow preventing outright catastrophe despite constant strain. But by 2011, when a political crisis engulfed the Arab world's poorest country, the sense of communal giving that sustained people like Anisa had been stretched nearly to a breaking point. Anisa had run up a debt of $90 at a local store, which she had no way of paying off.[1]

By the end of 2011, the United Nations' World Food Programme estimated that over 5 million people in Yemen were food insecure, double the number two years earlier. UNICEF, the U.N. body that works with children, believed that nearly 30 percent of the children in the area near Anisa's home village were acutely malnourished – they were going hungry to the extent that their physical and mental development was being badly affected.[2] The United Nations' benchmark for a hunger crisis among children is 15 percent acute malnutrition.[3] Aid workers were warning that disaster was approaching.

This was a full three years before a Saudi-led intervention escalated Yemen's civil war from a local power struggle into an internationalized conflict; before oil output was halted entirely and road access constrained further by fighting, checkpoints, airstrikes, and shelling; before a naval blockade, the closure of airports, and a collapse in foreign currency earnings; and before international banks refused Yemeni traders the correspondent banking services they need to bring basic goods into the country. And finally, it was before the already overstretched, underfunded, and understaffed hospital system was decimated by a lack of cash and staff, and an influx of patients.[4]

The humanitarian crisis in Yemen has its roots both in the current war and long-gestating factors in the country's political economy.

Currently, the number of food insecure Yemenis is estimated at over 14 million people.[5] Some 18.8 million people are reported to be in need of some kind of aid.[6] If the social fabric that prevented Yemen from total hunger was stretched by the end of 2011, today it is at the breaking point – if, as is likely in the case of many millions of Yemenis, it has not already broken.

The humanitarian crisis in Yemen has its roots both in the current war and long-gestating factors in the country's political economy. Understanding the current situation, and what future policies aimed at mitigating the hunger crisis might look like, requires an understanding of the overall trajectory of Yemen's modern political economy.

The story that this research tells is one of missed opportunities, misplaced priorities, and a lengthy tradition of indifference among Yemen's revolving cast of power brokers to the country's poor. This attitude has not only been maintained during the most recent conflict but has been adopted by many of the foreign players who have helped turn a local power struggle into a fully internationalized war.

1 See the full report in "Hunger in Yemen: Disaster Approaching," *The Economist*, April 21, 2012.

2 World Food Programme, *Comprehensive Food Security Survey, 2012* (Rome: World Food Programme, 2012).

3 Ibid., 33.

4 Dale Gavlak, "Health System in Yemen Close to Collapse," Bulletin of the World Health Organization, *World Health Organization*, October 2015.

5 "Yemen," United Nations Office for the Coordination of Humanitarian Affairs, last modified January 2017.

6 "Yemen Crisis Overview," United Nations Office for the Coordination of Humanitarian Affairs, last modified January 2017.

Yemen's Humanitarian Crisis in Historical Context

"Yemen" as we understand it today, has only been a single, formal entity for a little over a quarter century. Until the two merged to become the Republic of Yemen in 1990, the republican northern Yemen Arab Republic and the socialist southern People's Democratic Republic of Yemen (PDRY) were two separate countries.

The North's wily President Ali Abdullah Saleh had spent much of the 12 years before 1990 attempting to consolidate his control over a socially and geographically diverse territory whose economy was dependent on agriculture, remittances from Yemeni workers in nearby Gulf Arab states, and imported goods. The Sanaa-centric state had only nominal control over the territory it ostensibly ruled and was riven by infighting (Saleh himself came into power after a series of assassinations of his predecessors).

The South was governed by a Politburo that had been able to deliver a monopoly over violence in the former British colony but was almost entirely dependent on the Soviet Union for financial support. A series of internal schisms within the PDRY reached a bloody nadir in 1986 when a civil war between rival factions within the regime saw as many as 10,000 people killed in a 12-day period. As the Soviet Union began to collapse during the late 1980s, meanwhile, Soviet aid became limited, pushing the country to the brink of insolvency.

Unification was seen as a quick-fix solution to the two countries' problems. But by 1994 a North-South war came soon after the merger, ending in a decisive victory for the far more populous North. Saleh and his inner circle took a dominant position in national political life during a period in which long-hoped-for oil and gas discoveries in the north and south gave the regime control over a growing centralized revenue stream. This income would underpin Yemen's political economy for much of the next two decades.

According to a 2013 Chatham House report, "Rising oil output and prices on international markets during the second half of the 1990s sealed the shift from a decentralized, remittance and agriculture-led economy to an energy export-oriented model, with state income used to prop up elite networks of patronage." It continued, "The migration of many tribal leaders to Sana'a meant that power and wealth increasingly flowed from the centre to the periphery – if they flowed at all."[7]

In a case study for "resource curse" economies, Yemen became quickly and unsustainably[8] reliant on food imports, water produced using diesel pumps, and an economy fueled by cheap gasoline, diesel, and electricity, with fuel heavily subsidized for Yemeni citizens. Oil production peaked in 2002, and state income was only sustained by rising energy prices on international markets.

7 Ginny Hill, Jane Kinninmont, Leonie Northedge, and Peter Salisbury, "Yemen: Corruption, Capital Flight and Global Drivers of Conflict," *Chatham House*, September 1, 2013.

8 World Bank reports dating back to the 1980s warn against the "resource curse" of oil dependence and warn that Yemen's hydrocarbon resources will never be enough to sustain the entire population.

Yemen's cities grew and a new wealthy business elite, largely linked to Saleh, emerged as the service economy expanded. But hidden from view, economic life for rural Yemenis – some 60-70 percent of all Yemenis, even in the late 2000s – stagnated. Urban poverty dropped from 32.2 to 20.7 percent between 2000 and 2005, while it remained largely static in much of rural Yemen. Poverty actually increased during this period by 10-15 percent in the poorest parts of the country.[9]

The rural poor were susceptible to economic shocks like the 2008 surge in commodity prices, which was followed by a huge drop in the price of oil on international markets, pushing the country to the verge of bankruptcy. By 2010, around 46.7 percent of Yemen's countryside lived in poverty,[10] sustained only by cheap fuel, subsidies that had become unsustainable for an increasingly cash-strapped central government, imported goods underpinned by an artificially low exchange rate, urban-rural remittances, and the kindness of neighbors.

When, in late 2011, the British government sent one of its top humanitarian advisors to Yemen, he "reported back that Yemen faced the most complex set of circumstances he had ever seen."

The 2011 uprising exacerbated Yemen's many structural economic problems, including a bloated, expensive, and ineffective bureaucracy, falling state income and dollar reserves, and mounting government debt to local banks at exorbitantly high interest rates. With oil output often cut off by attacks on a key oil export pipeline, the government was forced to import fuel that it then sold at a loss into the local market. Neighboring Saudi Arabia stepped in with donations of fuel to prevent the economy spiraling further. But the situation had already deteriorated to a breaking point. When, in late 2011, the British government sent one of its top humanitarian advisors to Yemen, he "reported back that Yemen faced the most complex set of circumstances he had ever seen."[11]

Transition and Dysfunction

Saleh agreed to step down in November 2011, under a Gulf Cooperation Council-backed deal. He handed power to his longtime, if little-known, vice president, Abd-Rabbu Mansour Hadi, in an arrangement endorsed by a nationwide referendum in February 2012.[12] The GCC deal contained a number of clauses instructing the country's new unity government – a 50:50 split of Saleh's General People's Congress and an Islamist-led opposition coalition, the Joint Meeting Parties – to focus on economic issues.[13]

9 "Change or Continuity – The Political Economy of Transition in Yemen," *The World Bank*, October 2013.

10 World Food Programme, *Comprehensive Food Security Survey, 2012* (Rome: World Food Programme, 2012).

11 Peter Salisbury, "Yemen's Unresolved Economic Crisis," *Foreign Policy*, April 5, 2012.

12 Tom Finn, "Abd Rabbu Mansour Hadi Who?" *The Guardian*, February 20, 2012.

13 "Agreement on the Implementation Mechanism for the Transition Process in Yemen in Accordance with the Initiative of the Gulf Cooperation Council (GCC)," United Nations Peacemaker, May 12, 2011.

Jamal Benomar, then-U.N. envoy to Yemen, described the transition as one from "an old system of governance through patronage that left the country bankrupt to a new system of government that will ensure more transparent and accountable institutions."[14] Yet governance continued to deteriorate during the transitional period, as did the economy.

Corruption increased,[15] basic services and security became more and more unreliable, and the government faced a deepening fiscal and foreign exchange crisis. For many Yemenis, the transition was a time of declining living standards and weakening governance – and of continued infighting within the supposed ancien regime.

By 2014, the U.N. Office for the Coordination of Humanitarian Affairs estimated that almost 60 percent of Yemenis required some kind of humanitarian assistance.[16] Government officials forecasted that they would not be able to pay salaries by the end of the year. Fiscal catastrophe was only staved off by the careful ministrations of the central bank, one of the few generally effective institutions in the country.

By 2014, the U.N. Office for the Coordination of Humanitarian Affairs estimated that almost 60 percent of Yemenis required some kind of humanitarian assistance.

Meanwhile, management of government resources had become more opaque, not more transparent. In July 2014, Saudi Arabia gave the Yemeni government $435 million for social welfare payments as part of a wider $2 billion grant. Officials at the Social Welfare Fund soon complained that the payment not been distributed to them in full, forcing them to delay payments to the country's neediest people. Qatari officials also began to ask where a $400 million grant they provided earlier in the transition, to help ease tensions in the south, had gone.[17]

A senior finance ministry official, along with central bank staff, said at the time that the funds had disappeared into a "black hole" – a centralized pool of cash at the central bank that the government managed on a largely ad hoc, day-to-day basis, prioritizing current needs over formal spending allocations. "The ministry has always been run like a cash register. People receive money and they pay money. Fiscal or economic or monetary policy has not been done here," the finance ministry official said.[18]

14 Peter Salisbury, "Voice of Yemen's Hungry Poor Struggles to Be Heard in Peace Dialogue," *Financial Times*, July 24, 2013.

15 "Corruption Perceptions Index 2016: Yemen," Transparency International, 2016.

16 "2015 Humanitarian Needs Overview Yemen," *OCHA*, December 2014.

17 Peter Salisbury, "Yemen's Astonishing Financial Meltdown," *Foreign Policy*, December 11, 2014.

18 Ibid.

In an attempt to stave off a looming fiscal and foreign exchange crisis, the government agreed to a package of reforms, starting with a phased eradication of fuel subsidies. But for reasons that still remain unclear, in August 2014, the government cut fuel subsidies by 90 percent without advance warning to the public, rather than implementing the much smaller price hike it had agreed to with the World Bank and International Monetary Fund.[19]

The move was seized upon by the Zaydi Shia Houthi movement, which used the fuel price increase – that also affected the cost of water, bread, and imported goods – to justify a series of sit-ins and protests in Sanaa. Houthi fighters slowly encircled the city, eventually storming Sanaa in September 2014 and seizing control of key state institutions. The Houthis forced a partial reimplementation of the subsidy, creating further pressure on the budget. Saudi Arabia, which has long considered the Houthis Iranian proxies, froze financial transfers to Yemen, and within months had joined what quickly deteriorated into a full-blown civil war.

Yemen at War

Yemen's civil war is often presented as a two-sided affair: a battle between the Iran-backed Houthis and Saudi Arabia-financed loyalists to President Hadi. In reality, it is a deeply complex affair during which the country has been gradually broken into multiple zones of control by local armed groups backed by an array of regional actors. This distinction is important when trying to understand the current economic and humanitarian situation.[20]

The domestic element of the war was sparked by the Houthis' siege and seizure of Sanaa and their subsequent expansion across the country. The Houthis placed Hadi under house arrest in January 2015. He later escaped and fled to the southern port city of Aden. The nationwide conflict gained international dimensions when Houthi militias closed in on Hadi in Aden and a Yemeni air force jet fired a missile at the presidential palace in Aden, prompting neighboring Saudi Arabia to launch its own blistering aerial campaign and announce that it would help restore Hadi to power.

The Houthis' rise is often attributed to Iran. Largely working through Lebanon's Hizballah, Iran has lent the group some support since the mid-2000s. Saudi Arabia alleges Iran has been smuggling weapons to the Houthis for a number of years. However, many analysts believe that Saleh has played a far more significant role in the Houthis' rise. The former president is widely held to have instructed his military and tribal loyalists to support the Houthis' march south to Sanaa from their northern stronghold in Saada governorate, initially as part of a plot to avenge himself against former tribal and Islamist allies who turned against him in 2011 and later in an attempt to restore himself to power.

19 At the time, the move was explained as pre-emptively defensive – the government assumed there would be considerable pushback from spoilers and the public, and decided to cut the maximum possible amount so as to be able to reintroduce some form of subsidy if necessary. The argument was that a series of smaller, more gradual cuts would have been met with an equally strong response.

20 For a more detailed overview of the different groups involved in the civil war, see Peter Salisbury, "Yemen: Stemming the Rise of a Chaos State," *Chatham House*, May 25, 2016.

The Houthi-Saleh relationship, hidden before September 2014, has become increasingly overt since the civil war began, with pro-Saleh military units playing a key role on the ground and Saleh publicly conceding to an alliance with the Houthis, albeit as part of a marriage of convenience that few in Yemen see as sustainable in the long term.[21]

Lining up against the Houthi-Saleh alliance have been a wide array of local and ideological groups, from Southern secessionists in Aden to tribal leaders in Marib, in central Yemen, and hard-line Salafist fighters in the strategically important city of Taiz. These groups are nominally loyal to or "pro" Hadi, but few are fighting for the president. Rather, they hope to maintain control of home territory, to achieve wider political goals (independence from the North in the case of the Southerners), or fight for ideological reasons, as with the Salafists (who are present on most "hot" anti-Houthi fronts).

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Economic Arteries

The war has caused the country's economic arteries – its oil production, transport, and export facilities – to seize up. Houthi-Saleh alliance fighters entered Marib governorate in November 2014. After a series of failed cease-fire attempts, fighting from March 2015 onward became increasingly intense. As a result, Yemen LNG, a gas exporting project that is Yemen's biggest industrial scheme, and Safer, the state-run Yemeni oil company, halted oil production and export via a pipeline that crosses a region that had become a frontline in the war.[22]

As the conflict spread into the south of the country, with fighting in the oil-producing Shabwah governorate and Al-Qaeda in the Arabian Peninsula (AQAP) fighters seizing the southern port city of Mukalla and nearby oil export facilities, production and export of oil from the country's remaining oil fields also halted, effectively cutting off Yemen's supply of hard currency.

Starved of external income, the economy collapsed during the early days of the civil war, with the Yemeni government and World Bank estimating that real gross domestic product fell by 28.1 percent over the course of 2015.[23] In late 2015, the Sanaa-based Small and Micro-enterprises Promotion Agency estimated that a quarter of Yemen's businesses halted operations in 2015, inflating already high levels of unemployment.

21 "Although the Houthi-Saleh alliance has tightened politically, military units loyal to Ali Abdullah Saleh and those operating under the umbrella of the Houthi leadership continue to remain largely distinct," a panel of experts wrote in a report to the U.N. Security Council in January 2017. "The Panel assesses that the relationship between Saleh and Abdulmalik al-Houthi is an alliance of convenience, which is unlikely to survive the end of the current conflict." Dakshinie Ruwanthika Gunaratne, Ahmed Himmiche, Gregory Johnsen, and Adrian Wilkinson, *Letter Dated 27 January 2017 from the Panel of Experts on Yemen Addressed to the President of the Security Council* (New York: United Nations Security Council, January 27, 2017).

22 Simeon Kerr, "UN Sanctions Houthis as Yemen LNG Halts Production," *Financial Times*, April 4, 2015.

23 "Yemen," The World Bank, accessed April 14, 2017.

Institutional Control

Despite controlling only northwestern Yemen, the Houthi-Saleh-led authorities in Sanaa have been able to prevent a collapse in tax revenue, largely by placing immense pressure on tax collectors to take an aggressive stance with the businesses they dealt with, and, in the words of one Sanaa-based businessman, by "intimidating every business that didn't have elite protection into paying more than their fair share."[24]

State-run collection agencies brought in an estimated 474 billion Yemeni riyals ($1.89 billion) in tax revenue in 2015, down from the 586 billion Yemeni riyals ($2.34 billion) raised in 2014 but nevertheless a significant sum given the prevailing economic conditions at the time.[25] Similarly aggressive tactics over the course of 2016 are likely to have increased revenue, even as the economy continued to deteriorate. Anecdotal reports suggest that the Houthis have implemented a separate tax on businesses, traders, and transporters, a zakat-like (almsgiving) system of fees aimed at funding the war effort. This money, according to multiple individuals from the government, private sector, and political elite, is not transferred to the central bank but is directly transferred to Houthi-led militias (the money raised during a widely publicized campaign calling for patriotic Yemenis to give small change to post office branches for example has not been accounted for at any formal government institution).

As the war has been fought to a gradual stalemate, different groups have come to play an increasingly important function in local governance.

As the war has been fought to a gradual stalemate, different groups have come to play an increasingly important function in local governance. Northwest Yemen, under Saleh-Houthi control, is run by an often fractious coalition of Saleh loyalists and Houthi officials, who supervise civil servants and local government employees who have remained in place since the war began.

In Marib governorate, in central north Yemen, the governor, Sultan al-Aradah, has played an important role in consolidating an alliance of tribal forces and restoring basic services. In Aden, a pro-secession governor, Aydrous al-Zubaidi, took over day-to-day running of the city while providing militiamen to secure the city with the support of the United Arab Emirates, before being sacked by Hadi in April and announcing the formation of a Southern Transitional Council, bringing the divide between the Hadi government and southern leaders into sharp relief. In Mukalla, to the east, another UAE-backed military governor is in charge of security and management of local government, while in Taiz, Salafist fighters have come to play an increasingly prominent role.[26] Maribis, Taizis, and southerners each complain that they are not being given the financial, logistical, or technical support needed to restore basic services

24 Author telephone interview with Sanaa-based businessman, December 2016.

25 Central Bank of Yemen internal figures, provided to the author by government officials in Sanaa via email in December 2016.

26 Author and researcher interviews, 2016.

or provide meaningful governance. Residents of Mukalla, where the local governor is directly funded and supported by the UAE and is able to raise funds from taxing the local port, are much more positive about local governance.

The economic situation in some parts of the south of Yemen has improved somewhat since the Houthi-Saleh alliance was pushed out of much of the territory in mid-2016. However, Global Acute Malnutrition (a measurement of nutritional status for children used as one of the indicators in assessing the severity of a humanitarian crisis) has risen to critical levels of more than 15 percent of the population in at least four governorates, with crisis levels more or less evenly distributed between government and Houthi-Saleh controlled areas of Yemen.[27] This suggests that the absence of conflict in many areas is not enough to stabilize the humanitarian situation, and that neither party has prioritized aid delivery – in fact both the Hadi government and the Houthi-Saleh alliance have seen the economy largely through the lens of political leverage.[28]

The War for the Economy

Arguably, Yemen's economy has been weaponized by all parties to the conflict. In the early days of the Saudi-led intervention in Yemen, much attention was paid to the coalition's campaign of aerial bombardment. However, concerns were also raised over an effective naval siege of Yemen by coalition-led naval forces, which prevented cargo shipments from entering the country. To justify this, the coalition cited – erroneously in the view of a number of U.N. officials – an April 2015 U.N. Security Council resolution, which called on U.N. member states to prevent the transfer of arms to the Houthi-Saleh alliance.

The coalition also imposed an effective aerial embargo on the country, refusing to allow commercial airplanes to enter Yemeni airspace without permission from Riyadh (by mid 2017, only Seyyun airport in eastern Yemen and Aden airport were open to commercial flights, and Aden only infrequently). The Houthi-Saleh-controlled port of Hodeidah was effectively blockaded, while heavy fighting in the southern port city of Aden, besieged by Houthi-Saleh fighters, and the presence of AQAP in Mukalla to the east meant that commercial access to Yemen had effectively ground to a halt.

The United Nations was able to operate flights with permission from Riyadh but by June 2015 only an estimated 15 percent of prewar imports were entering the country.[29] This created a situation, in the words of one Western official who was working closely with the United Nations

27 "Yemen: Projected Acute Food Insecurity Situation March-July 2017," Integrated Food Security Phase Classification, March 2017.

28 Dakshinie Ruwanthika Gunaratne, Ahmed Himmiche, Gregory Johnsen, and Adrian Wilkinson, *Letter Dated 27 January 2017 from the Panel of Experts on Yemen Addressed to the President of the Security Council* (New York: United Nations Security Council, January 27, 2017).

29 "In Hindsight: The Story of the UN Verification and Inspection Mechanism in Yemen," *Security Council Report*, September 1, 2016.

at the time, in which "U.N. humanitarians were forced to privately lobby U.N. headquarters to come up with a plan to counteract the effects of a U.N. Security Council resolution, and to prevent mass starvation."[30]

Ironically, according to another official who was closely involved in efforts to improve trade flows in 2015, Western and U.N. security experts noted from early on in the war that if weapons were being smuggled into Yemen, they were likely being brought in on smaller ships rather than the large, internationally monitored cargo vessels the coalition was halting. "They didn't have the capacity to stop the dhows, so they were stopping the bigger ships even though we told them repeatedly that they were highly unlikely to be used for smuggling," the official said.[31]

The United Nations was able to operate flights with permission from Riyadh but by June 2015 only an estimated 15 percent of prewar imports were entering the country.

To manage the situation, the United Nations appointed Amr Daoudi, a veteran of the U.N. World Food Programme, to serve as regional coordinator for humanitarian relief efforts. Supported by the United States and United Kingdom, Daoudi prioritized the formation of a new body to verify shipments – the U.N. Verification and Inspection Mechanism (UNVIM). According to the Security Council report, "Shipping companies would have to notify UNVIM of all planned deliveries to Yemeni ports not under government control, and after reviewing information about the shipment, it would either clear vessels to proceed or flag them for inspection."[32]

In June 2015, Daoudi told Western and U.N. officials he believed that UNVIM would take several months to set up. But the mechanism did not come into force until May 2016. Among the factors that caused the delay were the slow pace at which donors released funds to pay for the mechanism and intransigence from the Saudi-led coalition and Hadi's government in exile, particularly after the Houthi-Saleh siege of Aden was lifted, with pro-Hadi Yemeni officials keen to see Aden become the country's sole trading port.[33]

Other issues arose over control of UNVIM, which Daoudi demanded be run by a neutral party and not overseen by the coalition or government, and over its location. The United Nations planned to run UNVIM from Djibouti but the government of Yemen demanded that it be based in Aden, a city it had abandoned after a brief stay in December 2015 due to security concerns. The coalition also asked to have UNVIM's remit expanded to include smaller ships and all aircraft entering Yemen.

30 Author interview with a Western official, via telephone, London and New York, November 2016.

31 Author interview with a Western official, London, November 2016.

32 "In Hindsight: The Story of the UN Verification and Inspection Mechanism in Yemen," *Security Council Report*, September 2016.

33 Author interviews with Western officials, September 2016-January 2017.

Traders describe UNVIM as having fostered a marked improvement in their ability to bring goods into the country. However, they say a combination of apparently random searches of ships along with the slow pace of offloading at Hodeidah (the main cranes at the port were damaged by coalition airstrikes and ships carrying replacement cranes denied entry to Yemen by the coalition) means shipments continue to be delayed, incurring demurrage charges.[34]

Issues with UNVIM continue to arise, and the entire process is a prime example of political maneuvering taking precedence over humanitarian access. The official stressed, "We should be spending more time and resources looking at the bigger picture, on delivery and recovery, but instead we spend it trying to alleviate the problems being caused by the coalition and others."[35]

Humanitarian Constraints

Import, access, and financial constraints have had a devastating effect on medical care in Yemen, with understaffed and underresourced hospitals struggling to cope with the influx of patients injured during direct fighting or by airstrikes or indiscriminate shelling, or suffering from acute malnutrition or illnesses attributable to malnutrition, on top of their traditional load of patients.

Fuel shortages and lack of budget mean that many hospitals have to operate through lengthy power outages, and are not able to refrigerate medicine. Other constraints include funding – UNICEF now underwrites much of the medical system in Yemen – and staffing levels, as well as access to medicine, with the severity depending on the area of the country. The medical system in the Houthi-Saleh controlled northwest, for example, remains under the management of the Sanaa-based Health Ministry while in major cities like Taiz and Aden – ostensibly under the control of the Hadi administration – hospitals and clinics are run on an ad hoc basis by staff who often work unpaid.

Medical supplies are often in short supply in part due to the ongoing issues with bringing goods into the country, but also, according to multiple humanitarian officials, because of political issues, particularly in the northwest of the country. The Houthi-Saleh alliance remains poorly coordinated, and security officials in Sanaa often refuse to sanction the transportation of much-needed medical supplies into the country as part of opaque turf wars, and to demonstrate their power. Aid agencies meanwhile report that a growing issue is their ability to pay staff, given the drought of Yemeni riyals and the difficulties they face in transferring money into the country.

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The current economic situation and lack of basic services and fuel have meant that a disproportionate number of Yemenis go hungry on a day-to-day basis and lack access to clean water, fuel, or electricity that could be used to heat and clean water, fostering a context

34 Author interviews with traders and Western officials, London, October 2016.

35 Author interview with a Western official, London, October 2016.

in which millions are susceptible to preventable and treatable illnesses at a time when the medical system is least able to cope with outbreaks of disease. Perhaps the best example of the danger of this situation became clear in May as the country began to suffer a major cholera outbreak.

The number of cases of cholera mushroomed from several thousand to 70,000 over the course of a month, according to the United Nations, with the regional head of UNICEF warning that the health system could soon be contending with an epidemic that had spread to 300,000 people. “We are responding to a major crisis without having the basics,” Geert Cappelaere, the Middle East head of UNIFEC told The New York Times. “The reality is incredibly dire.”

The War for the Central Bank

Imports cannot flow in or out of a country without a functioning banking system, a point diplomatic and aid officials say that they have belabored with the Houthi-Saleh alliance, the Hadi government, and the coalition, since the war began. Again, however, protection of the bank’s functions has been secondary to political wrangling over control of the institution.

The Central Bank of Yemen (CBY) had struggled to manage a mounting foreign fiscal and currency crisis for a number of years. Once war broke out, officials developed a suite of contingency plans, including an exit from a so-called “exchange support mechanism” described by traders as being crucial to the continued flow of imports.[36]

Bank officials agreed that they would neither totally end foreign exchange guarantees, nor stop financing the government deficit – a policy based on optimism that the war would be short-lived. Bank officials started to draw up a plan to prevent a complete foreign exchange and fiscal meltdown in consultation with the IMF and others. During this period, officials from the IMF and other international bodies praised the CBY staff for their professionalism and neutrality under trying circumstances. “It’s hard to state how important the bank staff were in preventing a total systemic meltdown in 2015 and 2016, and how they did so under immense pressure from all parties,” a Western diplomat stressed.[37]

The bank’s work was possible only because of an “economic nonaggression pact” between the Houth-Saleh axis and Hadi government, with both parties agreeing that the CBY’s work was too important to politicize, and that it should remain neutral.

36 Under the exchange mechanism, the central bank guaranteed a fixed exchange rate for imports of rice, wheat, sugar, and fuel. Importers paid for shipments in U.S. dollars and agreed upon a fixed exchange rate with the bank. They sold their cargo into the local market in Yemeni riyals, which were deposited in local banks and then converted back into dollars at the prearranged exchange rate. This protected the importers from any foreign exchange risk and also, many officials argue, created an effective subsidy for many importers.

37 Author interview with a Western diplomat, London, October 2016.

Communications Breakdown

In 2016, the central bank provided the Hadi government and Western officials three possible policy options: a status quo arrangement, leading to a complete exhaustion of foreign exchange, with the bank running out of hard currency by the end of 2016; a narrowing of the mix of commodities covered by the exchange rate mechanism, slowing imports but also the pace of reserve decline; and complete foreign exchange liberalization.

As it became clear that the war was likely to continue for the foreseeable future, officials terminated guarantees for sugar imports and then, in early 2016, for fuel. This provided some breathing room, but did not prevent the overall trajectory of the exchange crisis. Dollar reserves fell from $4.81 billion at the end of 2014 to $2.33 billion at the close of 2015. By June 2016, the CBY held around $1.3 billion. (Current estimates range from around $600-850 million.)[38]

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The bank's stocks of physical local currency also began to dwindle, making it increasingly hard to pay wages even where unsustainable debt levels were being incurred. By the end of 2016, debt had risen to $1,000 per capita in a country where at least two-thirds of the population was unemployed and state salaries were not being paid. The bank, in line with policies suggested by the IMF, began planning to have more riyals printed by a Russian firm.

The relationship between the Hadi government and the bank had begun to deteriorate, with government officials becoming increasingly vocal in their criticism of CBY Governor Mohamed bin Humam, who continued to underwrite the government budget on the basis of 2014 planning figures. With most physical institutions under the control of the Houthi-Saleh alliance, the government in exile argued that this was tantamount to support for the rebels.

The bank continued to attempt to make payments to local government bodies and ministries, but could not guarantee that the money being distributed would reach its intended destination. Houthi-Saleh leaders in the besieged city of Taiz, for example, were reportedly seizing payments intended for local authorities, while officials in Marib have said that they stopped receiving funds in March 2015. Authorities in Aden received payments from the central bank through Djibouti, but have said they were sent a fraction of their operating costs.[39]

A key point of contention for the Hadi government was the continued payment of 25 billion Yemeni riyals a month (around $100 million) to the Ministry of Defense. According to a Hadi administration official, "the whole YER 25 bn of the monthly salaries ... was taken by [Houthi-Saleh] representatives without paying military units at the areas controlled by the government." Hadi officials argued that up to $2 billion had been spent subsidizing fuel and

38 CBY statistics, provided to the author via email, under the condition of source protection.

39 Author and researcher interviews with CBY officials, via Skype, telephone, and direct message, Toronto, London, and Yemen, October-November 2016.

guaranteeing imports in 2015, but the benefit had been felt only by the population in Houthi-Saleh-controlled territory, a complaint generally supported by residents of areas not under their control.

By late 2015, the Hadi government, encouraged by Western economic officials, had begun to consider different options to bring the bank under closer control and slow the pace of the mounting economic, fiscal, and dollar crises. According to officials involved in these talks, Western officials and then-Prime Minister Khaled Bahah favored a plan to set up a new central bank-coordinating office outside Yemen to mediate between the government and staff in Sanaa, and oversee the management and distribution of foreign currency. It was hoped this would convince the GCC states to provide an injection of dollars to prevent a complete collapse in reserves.[40]

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But tensions continued to grow between Sanaa- and Riyadh-based officials, with relationships reportedly deteriorating, after Hadi replaced Bahah as prime minister in April 2016. Humam attended a failed round of peace talks in Kuwait in mid-2016 in the apparent hope of restoring relations and producing a plan of action. Hadi officials had begun to draw up a plan to replace Humam and move the central bank headquarters to Aden. Officials claim they had hoped to retain Humam but he had become uncommunicative, did not consult them over key decisions like the printing of riyals in Russia, and had refused to attend meetings in Riyadh.[41] (Officials in Sanaa contend that after a year and a half of urgent messages, the authorities in Riyadh made a sudden decision without consultation).[42]

Western advisors, particularly from the United Kingdom and United States, warned strongly that a sudden move of the bank headquarters, if not carefully planned and executed, could prove disastrous. Saudi and UAE officials were reportedly broadly in favor of the move, and offered logistical, technical, and financial support. But they also seemed to have been convinced by their British and U.S. counterparts that more planning was needed before any major decisions were made. "Don't mess with the bank; this is how the rot starts," one Western official recalled Gulf officials being told of the systemic risks of an ill-conceived bank move.[43]

In August 2016, the CBY, having exhausted supplies of physical riyals, was unable to make payments. Local banks were told that it was struggling to organize the dollars needed to pay traders for food imported and sold into the system. The central bank had already devalued the Yemeni riyal from 214.25 Yemeni riyals to the dollar to 250 Yemeni riyals, while dollars were trading on the black market at up to 300 Yemeni riyals (the unofficial exchange rate as of June 2017 was around 370 Yemeni riyals to the dollar). Some 1.5 million civil servants and

40 Author and researcher interviews with multiple Western, multilateral, and Yemeni officials, September-November 2016.

41 Ibid.

42 Ibid.

43 Author interview with a Western official, November 2016.

government employees were going unpaid, with this figure supporting anywhere between 10 to 15 million people across Yemen. With Social Welfare Fund payments not made since late 2014, this was in effect the last source of government support for millions of Yemenis.[44]

The central bank was in effect on the verge of collapse. Its problems were compounded when the government issued letters to the IMF and other international financial institutions asking them not to follow instructions from Humam or the central bank in Sanaa. In September 2016 Hadi announced he was replacing Humam as central bank governor and moving the headquarters of the bank to Aden.

Hadi-affiliated officials give conflicting accounts of how well-prepared the government was to completely transfer the bank from Sanaa to Aden. (Generally, officials agree that there had been three months of discussions on how to make the move but, one senior official said, "there was no clear plan" on how to do so, a claim other officials dispute).

Hadi government officials argue that rather than being a political move aimed at economically isolating the Houthi-Saleh alliance, it was aimed at saving the economy from complete collapse. The authorities in Sanaa would not have been able to print new currency or access hard currency.

Western officials with knowledge of the discussion around the central bank argue, however, that perhaps the "braver" decision would have been to cooperate with bank staff in Sanaa and set up a coordinating office in Aden or outside the country so as to retain the institutional expertise of staff from the Sanaa headquarters. Hadi government officials claim they are in regular contact with senior bank staff and that they have asked them to move to Aden. Senior bank staff in Sanaa say there is little to no communication, and no such suggestion has been made beyond an interview given by the prime minister in late 2016.[45]

The financial, logistical, and technical support promised by the UAE and Saudi Arabia is yet to materialize fully, meaning that the new central bank headquarters in Aden has not been recapitalized and is staffed by a small number of Hadi government appointees. Procedural and technical issues have left the Aden office without access to the SWIFT system needed to make international payments. Concerns over the new bank's ability to implement counterterrorism financing mechanisms meanwhile have limited the government's ability to access the small volume of dollars it holds at foreign banks, particularly the U.S. Federal Reserve. Once the relocation of the headquarters had been announced the government asked a Russian firm to print riyals, with a first shipment of physical cash arriving in Aden in January. Bank officials say that the cash will only be distributed within areas under nominal government control. And the newly-printed riyals will last for a limited period of time – by some estimates four to six months.

Concerns over the new bank's ability to implement counterterrorism financing mechanisms meanwhile have limited the government's ability to access the small volume of dollars it holds at foreign banks, particularly the U.S. Federal Reserve.

44 CBY statistics, provided to the author via email, under the condition of source protection.

45 Author and researcher interviews with multiple Western, multilateral, and Yemeni officials, September-November 2016.

Yemeni banks and traders say they have been given no clarity as to whether the new bank will honor guaranteed currency payments for large volumes of wheat and rice imported into Yemen in 2017. A poll of traders suggests that the central bank is due to release in excess of $100 million back to importers, including $50 million to a single business.

Bank De-Risking

Another constraint on the banking system, and on trade access to Yemen, has been "bank de-risking." The World Bank describes de-risking as banks "terminating or restricting business relationships with clients or categories of clients to avoid, rather than manage, risk."[46] De-risking, according to Yemeni businessmen and banking officials, was already a problem before the civil war, with many major financial institutions wary of providing services to Yemeni businesses transferring money into Yemen because of fears over its reputation as a hub for terrorism.[47]

Traders and bankers report an intensification of this issue since U.N. sanctions were announced against Saleh and his son, as well as key Houthi leaders, in November 2014. U.N. Security Council Resolution 2216, which imposed an arms embargo on the Houthi-Saleh alliance, may also have played a role.

Where in the past the issue had been for new businesses to arrange banking facilities, the problem came to extend to established commercial clients, according to three well-regarded businessmen. A number of banks refused to provide correspondent banking services (using a bank in one jurisdiction to transfer money to another) even when businessmen offered large amounts of collateral. One businessman found that the bank he had been using for several decades and in which he held tens of millions of dollars was not only refusing to facilitate transfers, it requested he take his business elsewhere.[48]

"The problem is that Yemenis will have tens or hundreds of millions of dollars, but that these banks see the problem of working with us as being a potential cost of billions," said one businessman who has encountered similar problems. "We simply aren't worth the risk, and even if you've been with a bank for 20, 30 years without causing a peep of a problem, they will get rid of you just because you're Yemeni and you want to buy wheat to ship home. It's a huge problem."[49]

Physical Currency

Banks and traders complain they had been prevented from converting physical foreign currency into dollars by what they saw as political maneuvering. For many years, large amounts of regional currency, particularly Saudi riyals, have accrued in Yemen through trade

46 "World Bank Group Surveys Probe 'De-Risking' Practices," *The World Bank*, accessed June 2017.

47 Author and researcher interviews with multiple Western, multilateral and Yemeni officials, September-November 2016.

48 Author and researcher interviews with multiple Western, multilateral, and Yemeni officials, September-November 2016.

49 Author interview with a Yemeni businessman, London, October 2016.

and informal remittances.[50] The main commercial banks in Yemen, along with the central bank, had operated a system of periodically flying large volumes of Saudi riyals to Bahrain where they were converted into dollars and transferred to the respective accounts of the banks involved. However, during 2015 one such flight was held at Manama airport, and was prevented from transferring the physical currency – an estimated $100 million worth – to a local bank. Later flights were denied permission to transfer cash, and with the effective closure of Sanaa airport it has become impossible for the central bank, local banks, and traders to convert many hundreds of millions of dollars in physical cash to underwrite imports. The situation has remained unresolved.

Necessity is the Mother of Invention

Banking officials and traders report that Yemen's economy has been kept afloat in no small part by less visible financial institutions – money exchangers and remittance agencies – and by businessmen willing to run the risk of transferring goods overland from Saudi Arabia, the UAE, and Oman into Yemen, with trucks crossing frontlines to reach their final destinations.

A great deal of this trade is based on elite Yemeni players with large cash reserves abroad who pay for goods in foreign currency from accounts in the GCC states, bring the goods into Yemen and using the revenue to pay for goods and services in the local market. (One Yemeni trader alleged that key Saleh loyalists have been able to finance militias through this mechanism).[51] Smaller Yemeni businessmen and traders have developed an ingenious system to maintain trade, based on a combination of traditional hawala (informal money transfer) networks and creative problem solving.

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Under the latter mechanism, Yemeni workers in Gulf states deposit cash with small businesses owned by Yemeni merchants, which also operate as informal money transfer offices. These offices collect the local currency (Saudi riyals for example) and use it to pay for goods and shipments into Yemen either from the country they are in or another country nearby. The goods are shipped to Yemen and the businesses lodge their revenue, minus profit and a fee, with the local partner of the money transfer offices. These businesses then transfer the workers' remittances to the families of the workers in the Gulf countries, at the official exchange rate rather than the higher black market price. "To be honest, this is what is keeping a good number of Yemenis afloat," a Sanaa-based Yemeni merchant said.[52]

Often, overland transport – where trucks pass through multiple checkpoints manned by different military units and militias – serves to enrich some of the main combatants involved in the war and further inflate the price of basic goods. One Yemen analyst wryly noted that

50 Author interviews with traders, banking officials, and Western officials via telephone, Skype, and direct message, Toronto, London, and Yemen, September-October 2016 and March 2017.

51 Author interview with a Yemeni trader via direct message, January 2017.

52 Author interview with a Yemeni merchant via direct message, London and Sanaa, January 2017.

while Yemen's rural poor starve, it is still possible to purchase Baskin-Robbins ice cream in Sanaa. Money exchangers and remittance agencies, meanwhile, have allowed Yemenis living abroad to send money to friends and family.[53]

Indeed, analysts and aid officials have been surprised by the continued availability of food and other basic goods in local markets. This, according to a number of traders, analysts, and Yemenis engaged with economic issues, is because of the blending of formal, informal, and illicit trade mechanisms into a single system that allows trade to flow but makes no distinction between the formal, informal, and illicit economy – or the boundaries between different armed groups.

Despite the effective cantonization of the country into several distinct areas of control, goods have flowed relatively freely between the Houthi-Saleh controlled northwest and the rest of the country, thanks to an elaborate network of checkpoints that have been operated through surprisingly effective informal cooperative agreements between the different fighting forces.

On most routes, trucks' passages are paid for by drivers at checkpoints, which are provided with cash by the traders underwriting the journeys. "In many ways, it is actually safer to send trucks along some routes than before," one trader involved in trucking goods into Yemen from the GCC states claimed. "The government didn't do a very good job of preventing holdups, but the roads have become so important to the militias that once you pay at a checkpoint you are assured that your goods will make it through."

Goods are also "taxed" by the local authority in charge of each area of territorial control. As Houthi-Saleh controlled areas become more dependent on these trade routes, the greater the income of the armed groups, the greater the price of goods at market.

This creates a troubling incentive system for the groups ostensibly at war with one another, and has created a cadre of "new businessmen" in Yemen – people with close ties to the leadership of different armed groups who are able to facilitate the movement of goods across the country. It has also reputedly led to large-scale corruption on all sides with respect to the import of goods into Hodeidah. "Many people have gotten rich from the war and it is in their interests to see it continue no matter the human cost," a well-connected, Sanaa-based source said.[54]

Staples are comingled with illicit cargo, including weapons destined for the Houthi-Saleh alliance and others.

It is also increasingly clear that food, medicine, and other basic goods are not the only things entering the country on the less formal overland and sea routes: Staples are comingled with illicit cargo, including weapons destined for the Houthi-Saleh alliance and others. According to

53 Author interview with multiple sources, October 2016.

54 Author interview with a Yemeni trader via direct message, London and Sanaa, November 2016.

a U.N. Panel of Experts report, this includes antitank weapons, possibly supplied by Iran. The greater the volume of trade along these routes, a Western security official argued, the harder it is to interdict weapon supplies.[55]

New Risks

Informal and semiformal trade mechanisms are problematic yet necessary for goods entering the country. This makes it important to better understand them, sources including government officials, traders, and diplomats argue, and assess their relative merits, rather than to attempt to shut down any business seen as being problematic. In November 2016, for example, the United States and the UAE jointly announced sanctions against Al Omgi, a Yemeni money exchange based in Mukalla, which they alleged had been used to transfer payments in and out of Yemen on the behalf of AQAP when the militant group controlled the city.[56]

Al Omgi's owners have said they had no choice but to perform certain operations on AQAP members' behalf, and have argued that it remained open out of a sense of obligation to the local community. AQAP had looted the main central bank branch in Mukalla, and civil service salaries were paid through the exchange both during and after AQAP control. The government and the UAE, staff at Al Omgi have said, continue, in fact, to make payments through the exchange because no other company in Mukalla can deal with the volume of payments required.[57]

Other money exchanges warn that the sanctions could have a chilling effect on other firms, which would pose a threat to remittances into Yemen that have been crucial to many families' survival during the war. "All it needs is for Western Union or similar to decide that Yemen is too much of a risk and we are all done for," said an official at one exchange firm.[58] According to foreign exchange firms, remittances from Saudi Arabia alone were worth around 40 million Saudi riyals (just over $10 million) a day before the Saudi intervention began. Remittances continue to be a key source of income for many Yemeni families.[59]

55 The U.N. Panel of Experts wrote: "The land routes from the border crossing points with Dhofar, Oman, to the nearest Houthi-controlled territory, or from south-eastern Yemeni ports, pass through more than 600 km of government-controlled territory … The probability of large-scale shipments being able to successively use this route without detection is low, but it is possible. The route is being exploited, as indicated by recent seizures by the Government. These were all from large trucks and either hidden under other cargo, for example chicken boxes, or were in false compartments of the trailer units." Dakshinie Ruwanthika Gunaratne, Ahmed Himmiche, Gregory Johnsen, and Adrian Wilkinson, *Letter Dated 27 January 2017 from the Panel of Experts on Yemen Addressed to the President of the Security Council* (New York: United Nations Security Council, January 27, 2017).

56 "Counter Terrorism Sanctions," Office of Foreign Assets Control, U.S. Department of the Treasury, November 1, 2016.

57 Author interviews with staff members from Al Omgi through an intermediary via direct message, London and Yemen, January 2017.

58 Author interview with an official at a Sanaa-based exchange firm through an intermediary, Sanaa and London, January 2017.

59 Author interview through an intermediary, Sanaa and London, January 2017.

A New Administration in Washington, New Worries for Yemen

In late 2016, it became clear that the Saudi-led coalition was planning a naval assault on the last remaining major Houthi-Saleh alliance-controlled port in Yemen – Hodeidah. The UAE conducted much of the preparation, and was widely expected to lead the assault. Western and regional officials have noted a broad range of perspectives on the planned operation.

Officials from the United States, United Kingdom, and elsewhere with a focus on economic and humanitarian affairs have argued strongly against a move on Hodeidah, which they worry would further tighten the supply of basic goods in the northwest.[60] This, they have said, would push up the price of basic goods to a level where even wealthier Yemenis would struggle to feed themselves (and anecdotal evidence suggests that many already do), further reducing the trickle down of goods to poorer families and precipitating an even deeper humanitarian crisis. Aid officials have also taken this view. An assault on Hodeidah would be "catastrophic" for poor people in the northwest, and others in non-Houthi-Saleh controlled areas, argued a senior official at a major international nongovernmental organization.[61]

Some Western military advisors and civilian officials provided an opposing view, however, arguing that an assault on Hodeidah would leave Houthi-Saleh forces boxed in without access to a major port and fighting on a new front, forcing the alliance to negotiate a meaningful settlement – a view largely taken by Gulf officials. Along with the central bank move, however, others have argued this would amount to the further "weaponization" of the economy.[62]

The Houthi-Saleh alliance is likely to be able to ensure provision of basic goods to its armed forces and senior officials through overland routes,[63] while using the operation's impact on the economy as fuel for propaganda. Severe damage to the port in the event of an assault is more or less a certainty.

The British Foreign Ministry and the U.S. Department of State warned against a Hodeidah assault in late 2016, and argued for a renewed diplomatic push to end the war. But the arrival of the administration of President Donald J. Trump in Washington in January may have changed the calculus, with the president and top officials, including Secretary of Defense James Mattis and Secretary of State Rex Tillerson, more hawkish on Iran than the officials in the administration of former President Barack Obama, and more persuaded of the view that the Houthis are part of a regional network of Iran-aligned forces.

60 Author interviews, Toronto, London, Washington, DC, and New York, October 2016-March 2017.

61 Author interview with a senior official at a major international NGO, London, November 2016.

62 Author interviews via telephone, email, and direct message, October 2016-March 2017.

63 Saleh has huge resources stashed abroad; according to a U.N. Panel of Experts report, Saleh's son, Khaled, over a three-week period in December 2014, laundered an estimated $83,953,782 – likely a fraction of the family's overseas holdings. Dakshinie Ruwanthika Gunaratne, Ahmed Himmiche, Gregory Johnsen, and Adrian Wilkinson, *Letter Dated 27 January 2017 from the Panel of Experts on Yemen Addressed to the President of the Security Council* (New York: United Nations Security Council, January 27, 2017).

In February, a cargo ship carrying two cranes bound for Hodeidah, provided by the World Food Programme to replace equipment damaged during the early days of the aerial campaign, was held outside Hodeidah before being told that it should not discharge its cargo. Aid officials feared this was a signal that the assault was imminent, and were concerned that, if Sanaa airport were closed, they would soon be unable to bring any goods into the northwest, rendering many humanitarian initiatives moot.

Abu Dhabi and Riyadh appear to have been persuaded that they cannot accomplish the highly complex military task of seizing Hodeidah through amphibious assault without support from the U.S. military. However, Western officials say the UAE and Saudi Arabia have agreed to halt the operation until they receive the go-ahead from Washington.

The Trump administration is yet to make a clear decision on what path to take, and as of June, plans to take the port were widely assumed to be on hold. The Saudis had made increasingly loud calls for the United Nations to intervene and take control of the port. Under this plan, the Houthi-Saleh alliance would hand over the port as part of confidence-building measures built into a renewed push for peace talks. Houthi-Saleh officials have thus far been resistant to the idea, and it remains unclear how the status of Hodeidah will be resolved.

Conclusions and Recommendations

Yemen's poorest people are in bad shape, and the prospects for their future are ominous. In a December 2016 report, the World Bank noted:

> It is estimated that approximately 19.4 million Yemenis lack access to clean drinking water and sanitation, and 14.1 million cannot access adequate health care. Children and adults are facing significant psychological stress; severe food insecurity affects 7.6 million people, and an estimated 2 million are malnourished, including 1.3 million children, of whom 320,000 are suffering from acute malnutrition [UNICEF has since increased this figure to 462,000]; an estimated 1.8 million children are out of school because of fighting and insecurity. This situation poses serious risk to the future of human development in Yemen. The number of [internally displaced persons] has risen to over 3 million, with the majority of displaced people hosted by local communities … The prospects for women-headed households, which represent 52 percent of the displaced community, are particularly challenging … Employment opportunities in both formal and informal sectors have also been impacted significantly, leaving millions with limited income opportunities. This leaves a vast majority of the population suffering from loss of employment and therefore, income, limiting severely the basket and quantity of food available to them. Agricultural production, employing more than half of the population, has also drastically declined due to insecurity, high costs, and sporadic availability of agricultural inputs."[64]

A Yemeni NGO worker who works with rural communities in one of the poorest parts of the country reported that shops and markets in hard-to-reach communities had begun to shut down. Few people from local communities were able to pay for goods, and many had run up considerable amounts of debt, with many small traders bankrupt after extending too many credit lines. Where many families had depended on remittances from relatives in the cities, he

64 "Combined Project Information Documents/Integrated Safeguards Data Sheet (PID/ISDS) Additional Financing," The World Bank, December 3, 2016.

said, many Yemenis had fled to the countryside, fleeing open conflict, airstrikes, or economic adversity. It was not clear how they would survive in the coming months. Later, the same person reported that several family members had been affected by the cholera outbreak.

Food and other basic goods are likely to continue to enter Yemen for the foreseeable future even if the Hodeidah assault were to go ahead, but in increasingly small volumes during a period of deep economic instability. Many Yemenis can no longer afford to buy wheat and rice; those who can will soon be priced out of the market. This problem is particularly severe in rural areas controlled by the Houthi-Saleh alliance, and in neglected areas ostensibly under government control. It is also increasingly affecting relatively affluent Yemenis, who have stretched their finances to support friends and family.

Yemenis face a desperate set of circumstances to which the country's political elite appears to be largely indifferent. The fate of many could be sealed by a Hodeidah assault or similar move aimed at producing political leverage at the cost of aid and trade access.

There is some hope, however. In January, the World Bank announced a $450 million grant, to be administered by the U.N. Development Programme, aimed at protecting the medical system and providing livelihoods for rural Yemenis, through the Social Fund for Development and Social Welfare Fund.

The initiative is unique, and is described by some Western officials as an important experiment in providing what is in effect development funding targeting local communities during wartime. Such initiatives are vital to Yemen, especially given the war looks likely to continue for many months or indeed years to come, and because development aid can have an impact in large portions of the country.

Ultimately, policymakers must learn that Yemen's elite and armed groups, whatever their protestations, have rarely shown, through substantive action, a willingness to put the well-being of Yemeni citizens ahead of their own political calculus. Future efforts at peace and deal making must be built not around the assumption that progress on the political track will create new opportunities for economic progress, but that the economic track must be dealt with on its own terms, and not be used as leverage or a political football. Failure to do so – repeating the mistakes of the past – will be catastrophic.

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