

EXECUTIVE SUMMARY

The importance of remittances to Yemen's economic stability at both the macro and household levels predates the current conflict. In the context of violence and deepening economic and humanitarian crises, the significance of remittances has increased during the conflict. Remittances have become the primary source of foreign currency and play a more significant role in terms of import financing and Yemen's balance of payments. Remittances helped mitigate the challenges that the Central Bank of Yemen (CBY) faced trying to underwrite fuel and food imports, owing to the reduction in hydrocarbon revenues and decreased foreign currency reserves during the conflict compared to pre-conflict levels. The level of dependency among Yemeni households on remittances increased notably during the conflict. Remittances helped households deal with the broader socioeconomic shocks reverberating across the country, including the sharp depreciation of the local currency, loss of income, inflation, and rising unemployment, among others.

Despite the positive role that remittances have played and continue to play, their inherent vulnerability to external and internal shocks remains a major cause for concern. Externally, remittance flows are highly susceptible to labour market reforms and changing living circumstances in key host countries – especially Saudi Arabia, which remains by far the biggest source of remittances to Yemen. Remittances are also susceptible to sudden regional and global market shocks, such as those witnessed in 2020 following the onset and spread of the COVID-19 pandemic and the biggest drop in global fuel prices in 20 years. The initial impact of both developments was felt inside Saudi Arabia at the same time – March and April 2020. The longer-term impact of both developments and the response from Saudi authorities was spread out across the remainder of 2020.

Decreased crude oil export revenues and additional loss of revenue and productivity caused by COVID-19 and related mitigation measures negatively impacted the Saudi economy and Yemeni migrant workers in Saudi Arabia. A national lockdown was introduced in Saudi Arabia in late March 2020 and remained in place until the easing of some movement and employment restrictions in late June 2020. The movement restrictions essentially reduced the ability of Yemeni migrant workers to generate income. They also removed the physical ability of many to send cash remittances via formal and informal channels. This, to some extent, prompted a shift in remittance flows – from cash to digital and from informal to formal channels – with options narrowed to electronic remittances services provided by Saudi banks and correspondent Yemeni banks while movement was restricted. Sharp and sustained

decreases in global fuel prices led to lower Saudi crude oil export revenues – a significant development for the world’s biggest crude oil exporter. Lower crude oil export revenues resulted in decreased spending, credit, and consumption, as well as reduced income and job opportunities for foreign workers currently working or looking to work in Saudi Arabia, including Yemeni nationals.

Internally, competing monetary policies and attempts made by the Houthis and the Internationally Recognized Government of Yemen (IRG) to regulate Yemeni financial service providers (FSPs) are harming external and internal remittance flows. Forced or voluntary closures of Yemeni bank or money exchange company branches disrupt remittance flows. The implementation of a total ban on the new Yemeni rial (YER) banknotes in Houthi areas in January 2020 resulted in a significant decrease in the value of internal remittances sent from non-Houthi to Houthi areas because of divergences between the value of the rial in both areas. The impact has been significant: during the conflict, many businesses and individuals looked to support their families based in Houthi areas by seeking work in non-Houthi areas – specifically Aden and Marib.

These external and internal trends directly affected recipients’ spending and saving capacity.¹ In particular, the impact of COVID-19 and related restrictions led to a significant reduction of remittance flows in March–June 2020, after which there were signs of resilience in July–October 2020, followed by clearer signs of recovery from October onwards. Any notable reduction in the total value of remittances to Yemen over an extended period is cause for concern, not only for the increased dependence on remittances during the conflict but also because of the direct link between household purchasing power and food (in)security levels. Any change in remittance flows to Yemen can directly impact the value of the rial, trade financing gap, and households’ wellbeing, in addition to indirect impacts on the stability of Yemen’s local and national economies. During March–June 2020, for Yemeni households that continued receiving some – albeit reduced – remittances, spending was limited to the purchasing of essential goods. Less fortunate households were forced to adopt different coping mechanisms, such as borrowing money to survive and prioritising certain essential goods and services over others.

This report provides a detailed breakdown of major developments and trends in Yemen and Saudi Arabia over the past seven years, with a particular focus on developments that occurred in 2020 and the impact of COVID-19 on remittance flows to Yemen. The report does not claim to offer a definitive breakdown of remittance flows to Yemen (and internal remittances) and highlights limitations throughout. The analysis aims to provide critical information and recommendations that might assist policy and programmatic discussions, in addition to offering a springboard for follow-up research.

¹ Not all Yemeni remitters and remittance recipients found themselves in a position to save money prior to the pandemic – not least because there are a high number of remitters in Saudi Arabia who work as basic labourers and receive a daily rate of pay. Other migrant workers and their families in Yemen were able to save.

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Section 1 assesses the impact of the COVID-19 pandemic on remittance flows to Yemen, with a specific focus on the impact on Yemeni migrant workers in Saudi Arabia. Using a combination of key informant interviews and a COVID-19 questionnaire conducted in collaboration with the Cash Consortium of Yemen (CCY), several conclusions can be drawn concerning the impact of COVID-19. The value of remittances sent to Yemen from Saudi Arabia (and other remittance-source countries) significantly decreased in March–June 2020, following the outbreak of the first COVID-19 wave in Saudi Arabia. The March–June period unsurprisingly saw a spike in activity over the course of Ramadan (24 April to 23 May 2020), which is typically the peak time for remittances to Yemen. Even so, the total value of remittances sent during Ramadan in 2020 was much lower compared to Ramadan in 2019. Remittances flows did show signs of resilience and steady recovery throughout the rest of the year, after the easing of COVID-19 restrictions, with a notable rise in the total amount of remittances sent in the fourth quarter of 2020 compared to the second and third quarters.



The total value of cash remittances sent via unofficial and informal channels decreased in 2020, while the total value of remittances sent digitally via formal, official channels increased. This occurred because of a shift in the mode of sending remittances to Yemen from key remittance-source countries, such as Saudi Arabia, following the spread of COVID-19 and introduction of restrictions. The shift from cash to digital and informal to formal was caused by two key contributing factors. First, when faced with COVID-19 mobility restrictions (March–June), remitters found it more difficult to physically access hawala agents, money exchange shops, and Saudi bank branches. For many remitters, options were narrowed to electronic remittance services provided by Saudi banks and correspondent Yemeni banks. Remitters consequently started sending money to Yemen digitally via mobile phone applications. Second, certain Yemeni banks lowered their vendor fees shortly after the first wave hit Saudi Arabia in March 2020. Sensing an opportunity to capitalise on the shift from cash to digital and informal to formal, the banks kept their vendor fees low throughout the year and during the first half of 2021.

Section 2 examines issues related to inclusion and subnational variance (with a specific focus on Taiz) based on extensive field and follow-up research. This section also addresses the importance of understanding remittance dynamics in determining vulnerabilities, and therefore why this is crucial for humanitarian responders. Interviewees in Taiz stressed the importance of social and familial networks in accessing migration and job opportunities abroad and financial support from expatriates. These inclusion dynamics result in the clustering of remittance flows in certain communities and geographical areas. Access to remittances is considered a key factor in determining upward social mobility. During the conflict, however, remittance flows to Taiz shifted away from investment in business opportunities or real estate to financing the critical survival needs of families.

Section 3 maps the nature and extent of remittance flows to Yemen. Multiple estimates have been put forward on the total value of remittances to Yemen in 2019, ranging from USD 3.8 billion to 8 billion. It is difficult to pinpoint an exact figure as a high percentage of remittances have traditionally been processed through more informal hawala networks and are not recorded. In addition to acknowledging the distinction and overlap between formal and informal remittances, section 3 traces remittance pathways from sender to recipient, detailing the different stages at which actors (including FSPs and traders) engage and how they engage. As part of the mapping exercise, this section highlights some of the key Yemeni FSPs facilitating remittance flows among Yemeni banks and money exchange companies, in addition to noting the status of the country's correspondent banking relationships. Finally, it addresses Yemeni FSP compatibility and adherence to anti-money laundering (AML) and combatting the financing of terrorism (CFT) regulations.

Section 3 also highlights the presence and significance of in-kind remittances to Yemen. Throughout the conflict, migrant workers and expatriates have continued to send goods to

family members and friends in Yemen from abroad. In-kind remittances are often a means of providing the recipient with an item that is either cheaper or more easily obtained outside Yemen than in-country. Some in-kind remittances are also sent with the objective of enabling the recipient to generate income by re-selling the goods, therefore helping them cover the cost of other essential goods and services.

Section 4 highlights the importance of labour market developments and changing living conditions and status for Yemeni migrant workers in Saudi Arabia. Key migration trends that developed during the conflict are also flagged. COVID-19 and related mitigation measures introduced in Saudi Arabia aggravated the existing socioeconomic pressures on Yemeni migrant workers and expatriates. These pressures derive from interrelated Saudi labour market developments and policies, such as the Saudi nationalisation or 'Saudisation' of the private sector, as well as salary and job cuts. Compounding this, many Yemeni migrant workers are struggling with rising living costs (e.g. increased residency fees and the tripling of value-added tax in July 2020); such conditions are making it harder for Yemenis to afford to remain in Saudi Arabia and continue sending the same amount of remittances each month.

Despite the different socioeconomic challenges, official and unofficial data shows an increase in the number of regular Yemeni migrants in Saudi Arabia since the escalation of the conflict in March 2015. ACAPS also examined other noticeable migration trends that occurred both during and as a direct result of the conflict in an attempt to quantify and qualify such trends and the status of Yemeni migrant workers and expatriates in these host countries. These trends included the influx of Yemeni migrants to other regional countries, such as Egypt, Jordan, and Turkey, as well as those that sought refuge in Malaysia. Section 4 also briefly acknowledges the presence of return migration (voluntary and involuntary) for those that had to deal with a change in their individual or familial circumstances.

Section 5 looks at the economic competition between the Houthis and the CBY branch in Sana'a (CBY-Sana'a) on the one hand and the IRG and the CBY headquarters in Aden (CBY-Aden) on the other hand.² It focuses on the impact of this competition on Yemeni FSPs and how this affects remittance dynamics (both remittances from abroad and internal money transfers). The most obvious and direct impact relates to instances in which Yemeni FSPs are forced to close or voluntarily close in protest against the actions of either or both sides in the conflict. Although the closures are temporary, the result is a disruption to external and internal remittance flows and payouts to recipients. Section 5 also looks at the impact of competing monetary policies and the battle for control over the local currency that resulted in the use of two currencies and an increased divergence in their exchange rates against the US dollar. It also examines competing CBY-Aden and CBY-Sana'a efforts to monitor and access monetary data, which includes financial transactions that occur through different Yemeni FSPs' hawala networks.

² Despite CBY-Sana'a not functioning as the CBY in the conventional sense, the terminology CBY-Sana'a is used for this report given the significant amount of policy directives and regulations that emanate from it and its influence over Yemeni banks and money exchangers within the domestic context.

RECOMMENDATIONS

To international actors

Immediate action

1. Convene a high-level technical forum to examine the status of remittances to Yemen and other issues directly linked to and impacted by remittances, such as food security, purchasing power, macroeconomic stability, trade finance, and Yemen's financial sector. Forum participants should look at obtaining a more accurate breakdown of the total value of remittances to Yemen, migration flows, and status of Yemeni migrants. The forum should also look at how to lower the cost of remittances for remitters and address concerns over AML and CFT among host/remittance-source countries.

- A preliminary forum should be held to determine the framework for future forums and meetings, including determining which local and external actors will be invited to join as well as naming a chair and general secretary.
- Participants should ideally include representatives from the IRG and Saudi national authorities (Saudi Central Bank and Ministry of Finance); World Bank, International Monetary Fund, and International Finance Corporation officials; senior officials from Saudi and Yemeni banks; representatives from the Yemen Banks Association and the Yemeni Exchangers Association; Foreign, Commonwealth & Development Office and U.S. Agency for International Development officials, as well as EU and UN officials.

Other participants could be included as part of the high-level forum or as a separate branch connected to the high-level forum, including representatives from the Private Sector Cluster and different chambers of commerce in Yemen, relevant officials from other key remittance-source countries, and officials from UN institutions and INGOs that are not part of the high-level forum core membership.

- The forum should comprise a technical working group and a high-level steering committee. The technical working group would be composed of local (Yemeni) and international actors with knowledge, experience, and direct involvement with remittances and migration. The technical working group would then brief the high-level steering committee, comprising national and international policymakers, decision makers, and financial authorities, as well as international financial institutions. IRG and Saudi officials could chair the high-level steering committee.

2. Build upon existing efforts to independently assess (and, where necessary, improve) Yemeni banks' individual capacity and compliance with AML and CFT. International actors should build on ongoing efforts by the International Finance Corporation regarding Yemeni banks and their compliance with internationally recognised AML and CFT standards. Such efforts are necessary to trigger a re-evaluation of blanket derisking measures applied to Yemeni banks and increase Yemeni banks' level of connectivity with the global banking network.

- It is critical that independent AML/CFT compliance assessments and capacity-building efforts are carried out for Yemeni banks on an individual, case-by-case basis.
- The results of the individual assessments could then be shared confidentially with external actors upon request, including central banks in countries hosting Yemeni migrants.

3. Elevate the importance of the economy to the same level as the military and political files, as part of an effort to contain and prevent further escalation of economic competition between the IRG and the Houthis. An economic warfare containment and de-escalation strategy must be developed taking into consideration the overlap between economic, political, and military files. For the sake of protecting remittances, progress on this strategy could serve to stem harmful interference, politicisation, or monetisation of remittance flows to Yemen. Key components of the containment and improvement strategy would need to include (1) the neutralisation of trade and finance and (2) the creation of a mutually acceptable framework for accessing and sharing monetary data. Progress on both these components will hopefully reduce the targeting of Yemeni FSPs and the services they provide to traders and remittance recipients.

Longer-term action

Appoint, assign, or hire a third-party contractor to conduct an independent assessment of Yemeni money exchange companies' individual levels of compliance with AML and CFT. Given the high number of Yemeni exchange companies, an initial shortlist could prioritise more prominent companies that are commonly used for trade financing and remittance payouts.



To Saudi Arabia

Immediate action

- Conduct a review of existing regulations regarding foreign ownership of Saudi-based companies, foreign migrant worker partnerships with Saudi nationals, and money transfer limit guidelines and parameters for foreign migrant workers. The objective should be to identify possible areas in which greater flexibility can be introduced for Yemeni migrant workers, in accordance with Saudi law and legal authorities. The review should be carried out by relevant Saudi national authorities and, when appropriate, in coordination with Saudi and Yemeni banks.
- Authorise a Saudi-based research institute to conduct regular surveys with Yemeni expatriates and migrant workers in Saudi Arabia to obtain their direct insights on remittances, employment, income, and the major challenges they face. The results of these findings should be presented at a joint forum that brings together Saudi and IRG officials. It should be considered whether other actors can be granted access to these findings as well. Although some profiling of participants is needed to enhance the survey (e.g. age, gender, and location), the identity of survey participants must remain anonymous.

To humanitarian/development actors

Immediate action

Integrate and adapt publicly available literature on remittances to Yemen within existing and future training programmes, building momentum from this report and outreach efforts. It is critical that aid actors recognise the importance of remittance flow dynamics to understand the drivers of vulnerabilities in Yemen more effectively. For example, developing a deeper understanding of the relationship between distribution of remittances, financial inclusion, and food insecurity across population groups and geographies could help aid actors design more effective interventions that aim to address food insecurity. This includes understanding the crucial role remittances play in market functionality and the financial sector at large, as well as in terms of food security and social protection.

Longer-term action

Work with Yemen's private sector to develop a system that offers clear, transparent support to Yemenis seeking to invest income earned abroad in Yemen-based income-generating businesses. This system could be developed with direct support from international agencies and delivered as part of a specific training programme to Yemeni migrant workers looking to invest in Yemen. Training materials could formulate clear guidelines on how to invest money in Yemen and protect and grow the investment.

To local actors: Internationally Recognized Government of Yemen

Immediate action

- Advocate with international agencies to develop and provide the resources needed (e.g. through training) to assist the IRG and enhance its capacity to (1) monitor, record, and manage outward and inward migration and (2) improve the levels of outreach and service provision to Yemeni expatriates. The IRG is struggling to provide sufficient resources to address both points, mainly owing to its budget deficit. As a result, other expenses are prioritised, as well as other internal capacity issues. INGOs and NGOs in host countries and in Yemen can allocate some of their own resources to assist the IRG.

In terms of outreach, the IRG could also engage with local stakeholders in host countries via Yemeni embassies. For example, in Saudi Arabia, the IRG could engage with the Saudi-based institute that this paper recommends be commissioned to carry out surveys with Yemeni expatriates and migrant workers in Saudi Arabia. Information obtained during the surveys and shared with IRG and Saudi national authorities could shape high-level policy discussions. The surveys would provide IRG and Saudi national authorities with a primary source of information to understand the perspectives of Yemeni expatriates and migrant workers, in addition to aiding decision-making processes regarding collective and individual actions that could be undertaken by IRG and Saudi authorities to address current or future problems that might arise.

- Outline terms and conditions for access to and sharing of monetary data with an independent third party. These terms and conditions will feed into discussions that aim to de-escalate current competition over monetary data and the subsequent targeting of Yemeni FSPs.

Longer-term action

Develop and present a range of proposals to Saudi Arabia and other countries in the Middle East and North Africa (MENA) region, Europe, and North America regarding training, career development, and employment schemes for current and future Yemeni workers. The objective should be to provide a pathway that offers Yemeni workers a chance to develop knowledge, experience, and skillsets they can use to support Yemen's future development. The time-limited employment schemes abroad will provide an important boost to Yemen's national and local economies, as well as support at the household level.

- Taking into account limited job and economic opportunities in Yemen, human capital regression, and the challenging business operating environment in Yemen, the IRG must work with regional and international counterparts to offer Yemen's workforce – particularly the younger generation – some form of personal and professional development scheme abroad. The scheme should be devised to find a balance between assisting host countries' labour market needs and current and future labour market needs in Yemen.

- The IRG should work with regional and international counterparts to assess their labour market needs and whether Yemeni migrants can be drafted in to address these needs. Training and employment schemes could be developed to provide Yemeni nationals with periodic, seasonal, or time-specific (e.g. 12-month, 18-month, or 2-year contracts) work abroad.
- Enrolment in the training and employment programme should be contingent on participants agreeing to return to Yemen once the programme is completed to support the country's reconstruction and development and avoid brain drain.
- INGOs and local NGOs in Yemen could work with the IRG to provide specific, preliminary coaching to prospective applicants for the training and employment programme. For example, the preliminary coaching programme could provide trainees with background information on the potential contributions they can make to host countries, as well as materials on geography, industries, and work opportunities. The preliminary coaching programme could also inform participants about the importance of community relationships in their host country and how to conserve their resources and think strategically about what they are trying to achieve by working overseas.

To local actors: Houthis

Immediate action

- Authorise selected Yemeni FSPs and/or financial institutions (e.g. Yemen Banks Association and Yemeni Exchangers Association) to represent the north and north-western governorates under Houthi control in different forums examining remittances to Yemen. Selected representatives can communicate messages to and from the Houthis and CBY-Sana'a on the one hand and external actors on the other hand.
- Outline terms and conditions for access to and sharing of monetary data with an independent third party. These terms and conditions will feed into discussions that aim to de-escalate current competition over monetary data and the subsequent targeting of Yemeni FSPs.

To the private sector

Immediate action

Yemeni FSPs should look to engage with international donors, aid actors, and international financial institutions on the subject of remittances to establish an early warning mechanism that would enable external actors to respond if remittances significantly declined over a sustained period. More proactive and open sharing of remittance data (within clearly defined parameters set by the Yemeni FSPs themselves) could help the aid sector and international community better understand the nature and extent of remittances and therefore more effectively identify vulnerabilities and trends concerning how best to respond to humanitarian needs.

- International donors, aid actors, and international financial institutions should present Yemeni FSPs with indicators they want incorporated within a remittance-focused information-sharing and early warning mechanism.
- Yemeni FSPs should be granted the ability to determine the parameters (terms, conditions, and scope) of the information-sharing and early warning mechanism. This can be communicated to international donors, aid actors, and international financial institutions both on a collective and individual basis.

Yemeni FSPs would likely need to decide who would act as the main representative and effective guarantor for Yemeni FSPs for this initiative and when interacting with international donors and aid actors. Possible options include a steering committee comprising selected Yemeni FSPs (appointed for a fixed term and on a rotational basis) or an independent third party with direct links and knowledge of Yemen's financial and trade sectors.

- Yemeni traders should also be looped into the early warning mechanism through the Private Sector Cluster, whereby traders are able to communicate the challenges they face accessing foreign exchange (FX) for imports, especially when access is linked to FX provided by remittance flows. This would better enable international actors to understand how to provide support to Yemen's economy. The early warning mechanism would enable them to identify and respond to any systemwide, structural issues related to accessing both FX and local currency. The mechanism could be used to smooth the inflow of essential imports and the utilisation of remittances for certain prioritised commodities in the event of trade financing and imports volatility. The early warning mechanism could also allow businesses to avoid unintentional risk exposure to money laundering and terrorism financing dynamics, which might impact their future business prospects.

SECTION 1

IMPACT OF COVID-19 ON REMITTANCES

When looking at the impact of COVID-19 on the nature and extent of remittance flows to Yemen, it is important to approach the issue from two different angles. The first entails breaking down the analysis into different periods, in accordance with the ebb and flow of the global pandemic. The second entails looking at the COVID-19 era as a whole to identify major shifts in remittance dynamics concerning Yemen. In addition to analysing the impact from a time perspective, it is also helpful to note general observations on the varied impacts of COVID-19 on Yemeni migrant workers living in different key remittance-source countries. As part of this exercise, it is important to examine developments in Saudi Arabia in more detail.

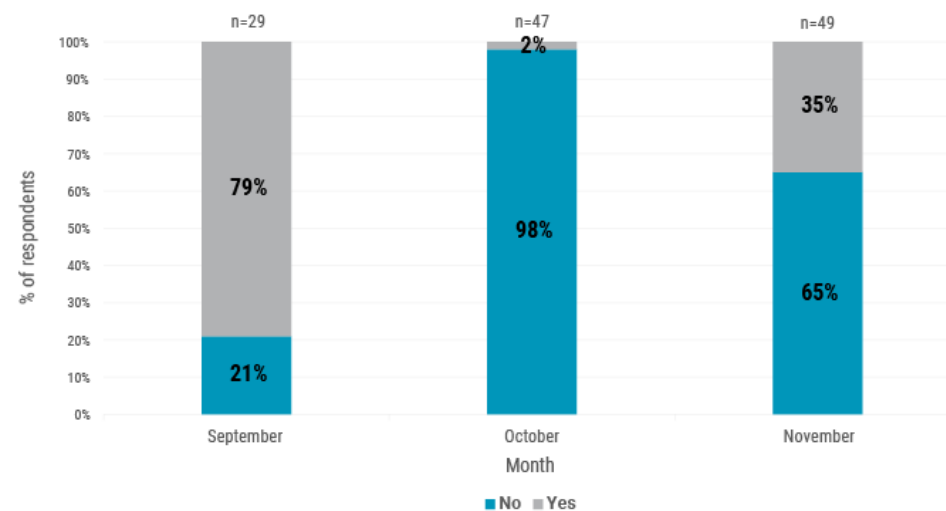
When breaking down the impact of COVID-19 on remittances to Yemen into different periods, the first interval extends from March–June 2020. This period covers the impact of COVID-19 on remittance flows following the first wave of COVID-19 and the subsequent imposition of COVID-19 mitigation measures (e.g. mobility and employment restrictions). During this period, there was a significant reduction in remittances to Yemen. The second interval is July–October 2020, following the easing of COVID-19 restrictions in key remittance-source countries, during which signs of resilience and recovery started to appear (i.e. increases in the total value of remittances sent to Yemen). The third period is from October 2020 until July 2021, during which the signs of recovery continued, and the total value of remittances kept climbing closer to pre-COVID-19 levels.

When looking at the impact of the COVID-19 era, one of the most significant changes was a shift in the preferred or more widely used mode of sending remittances to Yemen. In Saudi Arabia, there was a shift from cash to digital and informal to formal remittance services from March 2020 onwards. The spread of COVID-19 and imposition of restrictions is one contributing factor, with Yemeni migrant workers less physically able to interact with informal remittance providers. Another contributing factor concerned steps taken by Yemeni banks (in coordination with correspondent Saudi banks) to capitalise on this potential market opportunity through the promotion of formal, electronic remittance services and the lowering of vendor fees. To facilitate this, current and prospective customers were provided with simplified instructions on how remitters and remittance recipients can use Saudi and Yemeni banks' respective electronic remittance services via their mobile phones.

1.1 The initial drop (March–June 2020)

The volume of remittances to Yemen notably decreased between March–June 2020.³ This assessment is based on several interviews with Yemeni migrant workers in Saudi Arabia and different Yemeni FSPs, in addition to the results obtained from the CCY Remittance Tracker questionnaire distributed in September, October, and November 2020.⁴

Figure 1: Has COVID-19 negatively affected foreign remittances since March 2020?



Source: CCY Remittance Tracker^{5,6,7}

During the March–June 2020 period, there was a marked reduction in the volume of cash remittances sent via unofficial/informal and official/formal channels and remittance service providers.⁸ Among the main reasons for the general reduction in the total volume of remittances during this period are the introduction of COVID-19 lockdown measures and other mobility and employment restrictions. Various COVID-19 mitigation measures in remittance-source countries essentially reduced Yemeni migrants' ability to work and generate income. Many Yemeni migrants work informally or are self-employed (e.g. day labourers working in the construction and retail sectors in Saudi Arabia), meaning they are more vulnerable to

³ Interviews with operational actors in November–December 2020 and June 2021.

⁴ Interviews with operational actors in March, April, and June 2020; CCY Remittance Tracker, September 2021; CCY Remittance Tracker, October 2021; CCY Remittance Tracker, November 2021.

⁵ CCY Remittance Tracker, September 2021

⁶ CCY Remittance Tracker, October 2021

⁷ CCY Remittance Tracker, November 2021

⁸ Interviews with operational actors in December 2020 and June 2021.



pandemic-related loss of earnings.⁹ Initial employment restrictions were then followed by salary cuts and job losses, as the negative economic impact of COVID-19 shook national economies and the global economy as a whole.¹⁰

Individual working in a local exchange shop:

Mahmoud noticed a significant decline in remittance flows from Saudi Arabia during the lockdown period from April 2020. He also reported many expats returning to Yemen during this period, although most returned to Saudi Arabia when the borders reopened. Mahmoud reported that fees remained relatively stable, with some small increases; as they are generally charged as flat rates, these fees were felt more keenly because of the smaller sums of money being sent back to Yemen. Generally, financial services remained active and stable, with greater access challenges persisting for those in rural areas.

The holy month of Ramadan (24 April to 23 May 2020), known as the busiest period for Yemeni migrant workers and expatriates to send money home to Yemen, fell during the March–June period.¹¹ Despite a slight spike in activity during Ramadan compared to before and after, the total value of remittances sent during Ramadan in 2020 was much lower than in 2019.¹² According to one Yemeni bank, the total value of official remittances sent through their bank during Ramadan 2020 was 50% less than those sent during Ramadan the previous year.¹³

1.2 Signs of resilience and initial recovery (July–September 2020)

Between July–September 2020, remittances started to show some resilience and very early signs of recovery. This was predominantly thanks to the easing of movement and employment restrictions in remittance-source countries, in addition to Yemeni migrant workers sending home larger sums of money (where possible) to pay off debts accumulated during March–June.¹⁴ The remitter was not always in a position to send larger remittances without taking out some form of loan – whether it be an advance on their salary or from their own personal and/or financial network in their respective host country.¹⁵

1.3 Slow and steady recovery (October 2020 to July 2021)

The findings of the COVID-19 questionnaire conducted in December 2020 and the CCY Remittance Tracker work carried out in 2021 indicate that the total value of remittances being sent via more informal channels increased from October 2020 onwards.^{16,17} According to key informant interviews conducted in November and December 2020, formal remittances sent via Yemeni banks also increased in October–November 2020.¹⁸

Despite the steady recovery and increase in remittances sent via informal channels, the CCY Remittance Tracker questionnaire covering April 2021 noted that the overall flow of remittances had not yet fully returned to pre-COVID-19 levels.¹⁹ It did also highlight that this might not be the case in all areas of the country.²⁰ The May 2021 CCY Remittance Tracker questionnaire indicated that the increase in the total remittances sent via informal channels had continued, specifically in the southern governorates of Ad Dali, Aden, and Lahj. The CCY Remittance Tracker published on 1 July 2021 noted that 70% of exchange shops that participated in the questionnaire (28 out of 38) stated that remittances had returned to pre-COVID-19 levels.²¹ The continued implementation of vaccination programmes around the world is likely helping to stimulate economy recovery in key remittance-source countries, offering the potential for increased travel and trade and, as a result, having a positive impact on outward remittance flows.²²

9 Interviews with operational actors in May–June 2021.

10 Ali Al-Dailami, "Yemenis in Saudi Arabia: Less Money to Send Home, More Pressure to Leave", Sana'a Center for Strategic Studies, September 2020

11 Iona Craig, "In Yemen, Families Suffer as COVID-19 Dries up Money from Abroad," The New Humanitarian, June 16, 2020

12 Iona Craig, "In Yemen, Families Suffer as COVID-19 Dries up Money from Abroad," The New Humanitarian, June 16, 2020

13 Iona Craig, "In Yemen, Families Suffer as COVID-19 Dries up Money from Abroad," The New Humanitarian, June 16, 2020

14 Interviews with operational actors in November–December 2020 and January–March 2021.

15 Interview with operational actor in March 2021.

16 CCY Remittance Tracker, May 2021

17 CCY Remittance Tracker, July 2021

18 Interviews with operational actors in November–December 2020.

19 CCY Remittance Tracker, April 2021.

20 CCY Remittance Tracker, April 2021

21 CCY Remittance Tracker, July 2021

22 CCY Remittance Tracker, July 2021

1.4 Impact varied in different countries

The impact of COVID-19 and subsequent mitigation measures that Yemeni migrant workers faced in different countries varied depending on the specific work, social welfare, and living conditions in their respective host country. For example, Yemeni migrants in the US and UK that are said to earn a higher average income than in other countries may have been (but not necessarily) in a stronger financial position to continue sending money or receive some sort of support from the state. For Yemeni migrant workers in Gulf countries such as Saudi Arabia, where a large section works in manual or basic labour, the situation appeared to be harder. Given the importance of Saudi Arabia, priority will be given to discussing the impact of COVID-19 from the perspective of Yemeni migrant workers in Saudi Arabia.

1.4.1 Impact of COVID-19 on Yemenis residing in Saudi Arabia

Following the first wave of COVID-19 in Saudi Arabia and the establishment of COVID-19 employment and movement restrictions, migrant workers saw their working hours and salaries reduced. Some Yemeni migrant workers were not able to work at all, such as those required to be physically present at their place of work because employed in the wholesale, retail trade, service, and construction sectors.²³ Their work is less easily transferable to a home/virtual space during lockdown. The restrictions introduced in Saudi Arabia in April 2020 also meant that people had to buy food and other commodities in bulk, which imposed additional economic burdens on migrants now earning smaller or no salaries.

Some Saudi businesses dealt with the economic shock by reducing migrants' salaries and prioritising nationals for positions previously filled by Yemenis.²⁴ Stringent business closures affected businesses employing Yemeni workers and Yemeni-owned businesses. Salary cuts and job losses increased, partly because the private sector likely bore the brunt of residual consequences caused by the decline in demand during lockdown for many of the goods and services provided by the private sector. At the height of the first wave, research undertaken by the Sana'a Center for Strategic Studies recorded salary losses of 10–60% among Yemenis in Saudi Arabia who were interviewed in April–May 2020.²⁵

One of the different coping mechanisms that Yemeni migrant workers adopted was returning to Yemen while their employment was put on hold or after having their jobs terminated.²⁶ Others who stayed in Saudi Arabia looked for ways to continue sending remittances back to their loved ones in Yemen; some accepted loans from their hawala agent (as described below) or other people from their personal network at home and in their workplace.²⁷

A Yemeni migrant worker in Saudi Arabia:

Mohammed, originally from Taiz, has worked in Saudi Arabia for several years, being the sole provider for over ten family members in Taiz. Mohammed does not deal with a formal remittance provider but rather an individual agent who also provides transfer services to Mohammed's colleagues. Unlike others, Mohammed and his colleagues were able to continue sending money home based on trust with their agent, even though he was not able to take money from them because of the COVID-19 lockdowns. During the lockdowns, Mohammed initially lost work completely, then began working part time for 750 Saudi riyals (SAR) a month until finally beginning full-time work again in July. In Yemen, his family had to take out loans to cover expenses, and Mohammed himself took out loans from colleagues in Saudi Arabia to cover living expenses. When asked about access to formal services, Mohammed responded that he had originally had a bank account with the Saudi Al-Ahli Bank (formerly known as National Commercial Bank), which provided good transfer services, but his account was suspended.

In late June 2020, Saudi Arabia started relaxing COVID-19-related movement restrictions and allowed the resumption of economic and commercial activities.²⁸ During this period, however, there were salary cuts of up to 40% in the private sector and the termination of labour contracts with migrants, as businesses transferred the cost of the economic downturn onto migrants as opposed to Saudi nationals.²⁹

The tripling of value-added tax in July 2020 worsened the economic hardships already experienced by migrants during this period.³⁰ Residency permit eligibility was revoked for Yemeni migrants working in the public transportation, aviation, tourism, employee relations, retail, and hospitality sectors.³¹

23 Ali Al-Dailami, "Yemenis in Saudi Arabia: Less Money to Send Home, More Pressure to Leave," Sana'a Center for Strategic Studies, September 3, 2020

24 Huda Alsahi, "COVID-19 and the Intensification of the GCC Workforce Nationalization Policies," Arab Reform Initiative, November 10, 2020

25 Ali Al-Dailami, "Yemenis in Saudi Arabia: Less Money to Send Home, More Pressure to Leave," Sana'a Center for Strategic Studies, September 3, 2020

26 Interviews with operational actors in January–March 2021.

27 Interviews with operational actors in January–March 2021.

28 "Saudi Arabia to End Curfew on June 21, Except in Mecca," Al Jazeera, May 26, 2020

29 Sara Al Shurafa, "COVID-19: Saudi Arabia to Cut Salaries by 40%," Gulf News, May 4, 2020

30 Euro-Mediterranean Human Rights Monitor, "Saudi Arabia's Increasing Penalties on Migrant Workers Causing Humanitarian Crisis Among Yemeni Refugees," ReliefWeb, July 3, 2020

31 Huda Alsahi, "COVID-19 and the intensification of the GCC Workforce Nationalization Policies," Arab Reform Initiative, 10 November, 2020

1.4.2 Increased use of digital and formal remittance services

Between March–October 2020, the total value of official remittances sent from Saudi Arabia to Yemen via formal, digital remittance channels notably increased, while the value of cash remittances sent via formal and more informal channels decreased.³² The spread of COVID-19 in Saudi Arabia and the imposition of movement restrictions from the end of March until the end of June provided the catalyst for the initial shift from cash to digital and informal to formal remittance services.³³ The physical mobility restrictions left remitters unable to visit hawala agents or money exchangers to send cash remittances via unofficial and informal channels. Remitters were also physically unable to go to bank branches. As a result, the options available to them were narrowed to electronic remittance services, such as those offered by Saudi banks and correspondent Yemeni banks.³⁴

An electronic remittance is carried out via a Saudi bank that the remitter has an account with and that offers its own, official/formal electronic remittance services, such as Quick Pay (provided by Al-Ahli Bank), Enjaz (provided by Albilad Bank), Ersal (provided by Saudi Post and Alinma Bank), and Fawri (provided by Al Jazeera Bank).³⁵ Yemeni banks, specifically Tadamon Bank, Al-Kuraimi Islamic and Microfinance Bank, and Yemen Kuwait Bank (YKB), complete the transfer and pay out electronic remittances to recipients in Yemen. All three banks are licensed by the Saudi Central Bank to operate with Saudi banks and offer their respective electronic remittance services via mobile phone application technology (Tadamon Pay by Tadamon Bank, Kuraimi Express by Al-Kuraimi Islamic and Microfinance Bank, and Yeah Money by Yemen Kuwait Bank).³⁶ These three Yemeni banks are also authorised to provide other formal remittance services in the form of either SWIFT transfers or as an official agent of Western Union, MoneyGram, and Express Money.³⁷ For SWIFT transfers, the remitter must have an account with a Saudi bank that then processes the SWIFT transfer with the correspondent Yemeni bank. For Western Union and MoneyGram, the Yemeni banks operate as official agents of these global money transfer and remittance companies.

The shift to digital remittance services was further consolidated as a direct result of Yemeni banks offering promotions and lowering vendor fees to attract more remitters – a strategy that proved successful, as Yemeni migrant workers in Saudi Arabia continued to use formal remittance services even after the easing of COVID-19 restrictions in mid-2020.³⁸ For example, one Yemeni bank removed vendor fees entirely from April–November 2020.³⁹ The vendor fee was later reintroduced but remains lower than compared to before COVID-19.⁴⁰

Service promotions and the lowering of vendor fees were combined with the dissemination of clear instructions to both remitter and recipient about how to use the electronic services.⁴¹ As a result, the level of confidence among both remitters and recipients increased, and people adapted to the new technology. Saudi authorities also encouraged Yemeni banks to promote electronic remittance services. With the necessary telecommunications and electronic banking infrastructure already in place in Saudi Arabia, the pilot digitalisation trials of remittances to Yemen during 2020 was successfully accelerated.⁴²

The results of the COVID-19 questionnaire distributed in December 2020 support the above conclusion that there was a shift from unofficial to official remittance service providers following the spread of COVID-19 in remittance-source countries.⁴³

32 Interviews with operational actors in December 2020 and June 2021.

33 Interviews with operational actors in November–December 2020 and June 2021.

34 FSPs in Saudi Arabia reduced the number of staff allowed to work in offices at one time to prevent the spread of the disease. This caused delays in the arrival of remittances to Yemen. Banks quickly adapted to the change and encouraged users to take advantage of mobile phone transfers.

35 Interviews with operational actors in June 2021.

36 FSPs in Saudi Arabia reduced staff sizes to prevent the spread of the disease. The reduction in the number of staff permitted to work in FSP offices at one time in Saudi Arabia caused delays in the arrival of remittances to Yemen. Banks quickly adapted to the change and encouraged users to take advantage of mobile phone transfers.

37 Interviews with operational actors in June 2021.

38 Interviews with operational actors in December 2020 and June 2021.

39 Interviews with operational actors in December 2020 and June 2021.

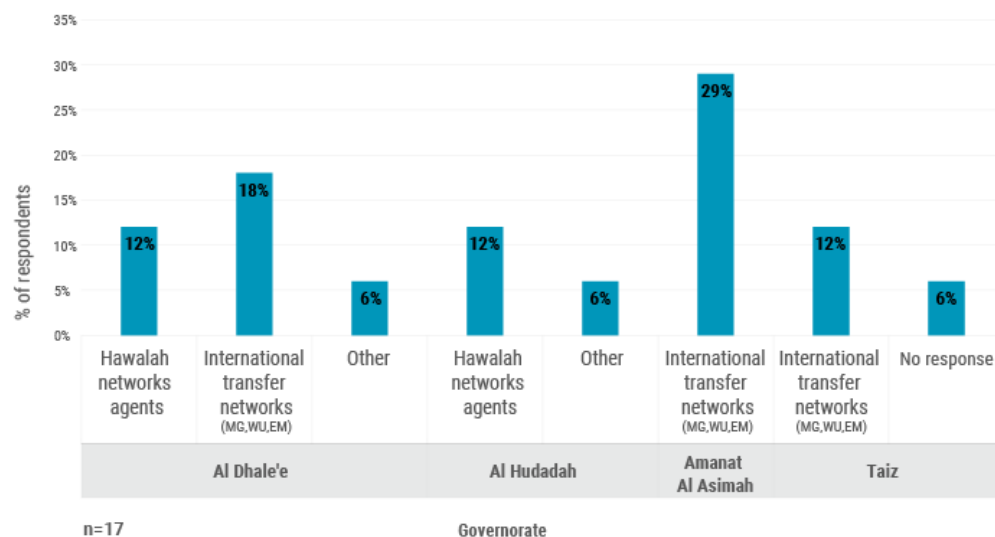
40 Interviews with operational actors in December 2020 and June 2021.

41 Interviews with operational actors in June 2021.

42 Interviews with operational actors in June 2021.

43 COVID-19 questionnaire, December 2020.

Figure 2: What were the most popular mechanisms to send remittances during the pandemic?



Source: December 2020 COVID-19 questionnaire

According to the COVID-19 questionnaire conducted in December 2020, nine out of 17 participants identified an increase in vendor fees when using money exchange companies at the height of the pandemic.⁴⁴ Questionnaire participants reported on average a 5–10% increase in transfer fees from the original fee.⁴⁵

1.6 Corroboration between report findings and other research focusing on the impact of COVID-19 on remittances

In May 2021, the World Bank and the Global Knowledge Partnership on Migration and Development published the findings of their research into the impact of COVID-19 on global remittances.⁴⁶ They found that remittance flows remained resilient in 2020, registering a smaller decline than previously projected (a 1.6% drop compared to 2019).⁴⁷ The primary reason identified for this was the significant fiscal stimulus that resulted in better-than-expected economic conditions in host countries.⁴⁸ The report also reinforced previous findings about a shift in flows from cash to digital and from informal to formal channels.⁴⁹

The study found that remittance flows to the MENA region rose by 2.3% to about USD 56 billion in 2020.⁵⁰ This is significantly different from the World Bank's forecasts in late 2020, which estimated a decline by 8% in 2021.⁵¹ This recovery, however, was highly uneven across the MENA region, with flows to Egypt increasing by 11%, to Morocco by 6.5%, and to Tunisia by 2.5%.⁵² In contrast, other economies in the region experienced losses in 2020, with Djibouti, Lebanon, Iraq, and Jordan posting double-digit declines.⁵³

The results of the COVID-19 questionnaire appear to be consistent with findings in Jordan and Lebanon, which show that the decline in remittances is a direct result of COVID-19 and attribute the slight recovery in global remittances in June to the 'catch-up' period following the decline in April–May. Even though migrants may have not been able to afford to send money home, savings were drawn upon as families remained in need of support, which explains the slight recovery of informal remittances recorded in the COVID-19 questionnaire in December 2020.⁵⁴ Anecdotes from interviewees also suggest that, during the recovery period, many Yemenis in Saudi Arabia took out loans against salaries, which they forwarded to families in Yemen to help pay off debt incurred.⁵⁵ These dynamics caution against making broad assumptions about the extent of the recovery based on the data and give an indication of how the costs of the COVID-19 impact have been spread across the year.

44 COVID-19 questionnaire, December 2020.

45 COVID-19 questionnaire, December 2020.

46 World Bank and Global Knowledge Partnership on Migration and Development, "Resilience COVID-19 Crisis Through a Migration Lens," Migration and Development Brief 34, May, 2021

47 This decline is much smaller than during the 2009 global financial crisis, when remittance flows dropped by 4.8%.

48 World Bank and Global Knowledge Partnership on Migration and Development, "Resilience COVID-19 Crisis Through a Migration Lens," Migration and Development Brief 34, May, 2021

49 World Bank and Global Knowledge Partnership on Migration and Development, "Migration and Development Brief 33, October 2020, Phase II: COVID-19 Crisis Through a Migration Lens," KNOMAD, October 2020

50 World Bank and Global Knowledge Partnership on Migration and Development, "Resilience COVID-19 Crisis Through a Migration Lens," Migration and Development Brief 34, May, 2021

51 World Bank and Global Knowledge Partnership on Migration and Development, "Migration and Development Brief 33, October 2020, Phase II: COVID-19 Crisis Through a Migration Lens," KNOMAD, October 2020

52 World Bank and Global Knowledge Partnership on Migration and Development, "Resilience COVID-19 Crisis Through a Migration Lens," Migration and Development Brief 34, May, 2021

53 A potential explanation for the differences in remittance flows can be found in the traditional source of flows, with Morocco and Tunisia receiving a significant proportion of remittances from western European countries, which were able to adopt significant stimulus and job support packages. In comparison, Djibouti, Iraq, Jordan, and Lebanon are overwhelmingly dependent on flows from Gulf Cooperation Council (GCC) countries, which were not able to provide a similar level of support. This analysis, however, is unlikely to be showing the entire picture, as Egypt is also extremely dependent on outflows from the GCC (making up over 70% of estimated flows from Saudi Arabia) but still recorded a growth in remittance flows.

54 COVID-19 questionnaire, December 2020; interviews with operational actors in March 2021.

55 Interviews with operational actors in March 2021.

For Saudi Arabia, in addition to the ‘catch-up’ period explained above and the slow opening-up of the Saudi economy, the improvement of outward remittances in July 2020 can also be explained partly by migrants sending savings that accumulated from not having purchased Hajj visas as a result of the cancellation of Hajj.⁵⁶

Despite the temporary improvement, the study was not able to forecast whether this resilience in remittance flows in Saudi Arabia would be maintained. With global oil prices returning to pre-2020 levels in 2021 and the reopening of the world economy, it is likely that increased economic activity in Saudi Arabia and other GCC countries will see an increase in regional remittance flows in 2021.⁵⁷ This will need to be monitored and will depend on domestic policy decisions.

SECTION 2

DEFINING ACCESS TO REMITTANCES AND GEOGRAPHICAL DIFFERENCES IN DISTRIBUTION

2.1 Distinction between Houthi and IRG areas

A clear distinction can be drawn between the areas under and outside of Houthi control in terms of remittance flows and the contrasting ability of CBY-Sana’a and CBY-Aden to maintain exchange rate stability. Most remittances are sent to recipients based in northern and north-western governorates under Houthi control (see Appendix I: Remittance survey for Yemeni migrant workers in Saudi Arabia). There are a few possible reasons for this: first, at least 70% of the population is based in Houthi areas; second; northern governorates share a mutual border as well as strong historic and social ties with Saudi Arabia; third, most Yemenis that migrated to Saudi Arabia and other Gulf countries in the 1970s and 1980s were from northern Yemen. Conscious of the fact that most remittances flow to the north, the Houthis are in a stronger position to coordinate trader access to remittance flows and secure requisite foreign currency to facilitate trade and critical imports.

The fact that both remittances and humanitarian funds are concentrated and/or flow through the northern Houthi-controlled territories, and specifically Sana’a, helps the Houthis secure and allocate sufficient foreign currency to meet importers’ demand. In sharp contrast, CBY-Aden has found it more difficult to access foreign currency that is circulating in the market among FSPs and traders, which contributes to the difficulties that CBY-Aden faces trying to maintain exchange rate stability. The main reason for this discrepancy is again tied to the fact that the majority of the population resides in Houthi areas, which includes Sana’a city, where Yemen’s financial system is heavily concentrated.⁵⁸ Most banks and money exchangers (and by extension the hawala networks that span the country) are headquartered in Sana’a.⁵⁹ The concentration of Yemen’s population and financial infrastructure in Houthi areas explains why most humanitarian aid and humanitarian funds are allocated and transferred via Sana’a. In terms of allocation of humanitarian aid, there is a 70/30 split between Houthi and non-Houthi areas.⁶⁰ Despite a higher rate of FX flowing through Houthi areas, the market exchange rate stability in Houthi areas is enforced, as opposed to resulting from FX supply and demand dynamics. If it were the latter, there would be more noticeable fluctuations in the exchange rate stemming from changes to market dynamics given the greater consumer demand and activity in the north.

56 World Bank and Global Knowledge Partnership on Migration and Development, “Migration and Development Brief 33, October 2020, Phase II: COVID-19 Crisis Through a Migration Lens,” KNOMAD, October 2020

57 Statista, “Average monthly Brent crude oil price from January 2020 to August 2021,” accessed 22/09/2021

58 “War’s Elusive End – The Yemen Annual Review 2019,” Sana’a Center for Strategic Studies, January 30, 2020

59 “War’s Elusive End – The Yemen Annual Review 2019,” Sana’a Center for Strategic Studies, January 30, 2020

60 Interviews with operational actors in March 2021.

2.2 Internal transfer challenges for local remittances

Remittances are not limited to money sent from outside Yemen. Internal remittances are also significant, especially from economic hubs such as Aden and Marib to other areas of the country, including Houthi-controlled territories.⁶¹ For example, many labourers and businessmen from Taiz governorate, both in IRG and Houthi-controlled areas, work in Aden and remit money to their dependents based in Houthi-controlled territories. Completing internal transfers, however, has become difficult because of the widening divergence in the value of rial banknotes between IRG and Houthi-controlled areas.⁶² With internal remittances from IRG to Houthi areas, the exchange rate difference between the two regions imposes an additional cost that reflects the difference in the value of the local currency and subsequent exchange rates between Houthi and IRG areas.⁶³ As a result, even though the amount that the recipient receives is the same in foreign currency terms, the value is much less after the currency conversion from old to new rial banknotes.

These internal transfer challenges have limited the capacity of Yemenis to easily use the rial as the currency of transfer, especially when sending to Houthi-controlled areas. Instead, many have resorted to carrying out financial transfers in USD or SAR and exchange as needed. Internal trade also plays an important role in these dynamics, with many agriculture products being largely centred in Houthi areas and exported to IRG-controlled areas, usually in exchange for SAR or USD.

2.3 Social networks are key to accessing remittances

Most interviews conducted with recipients and senders of remittances in Taiz emphasised the importance of social and familial networks in accessing job opportunities abroad and financial support from expatriates.⁶⁴ These inclusion dynamics result in a clustering of remittance flows in certain communities and geographical areas. In Taiz, for example, interviewees in two districts – one urban and one rural – highlighted that some rural areas have less access to remittances in general, and when there is access, it is usually secured via relatives employed in lower-skilled and lower-paid work abroad.⁶⁵ This is a generalisation,

but what is clear is that entrenched, historical connections with working opportunities in foreign countries play a role in determining one's ability to gain opportunities abroad. The interviewees noted that access to remittances has historically played an important role in rural-urban migratory flows, with access to remittances often allowing rural families to relocate to urban centres.⁶⁶

2.4 How Yemenis access job opportunities abroad

There are two interlinked factors that determine access to work opportunities abroad. The first is the capacity to cover financial costs associated with leaving Yemen and establishing oneself abroad. The second is access to support networks in the host country that are critical in identifying job opportunities (and sometimes even the credit required to access these opportunities).⁶⁷ As a result, access to remittances is highly uneven, heavily clustered, and tightly bound to the social capital present within certain communities. These networks also play an important role in the types of work opportunities available to expatriate Yemenis. According to one interview, once a member of a large family has settled in another country – especially one relatively accessible such as Saudi Arabia – other family members will follow and gain employment in the same sector (if not the same business).⁶⁸ This, in turn, is a determiner of employment stability, longevity, and income available for the expatriate worker.

One ramification of this dynamic is the warping of labour markets within Yemen itself. This is often felt in Taiz city, which according to interviewees is widely recognised as having exported a high number of its residents abroad, with significant outward migration taking place throughout the current conflict.⁶⁹ Employment skillsets tend to be concentrated around family and community units and are linked to opportunities abroad rather than domestic labour opportunities.⁷⁰ When access to labour opportunities either increases or decreases abroad, as was seen during 2020, the oversupply or undersupply of skilled labour can affect the local economy.⁷¹ There is a noticeable lack of diversity within the local workforce, with limited opportunities for the local population to upskill or move into different sectors outside skillsets often defined by familial or communal identities.⁷²

61 "Conflict Escalation in Marib and Potential Humanitarian and Economic Impacts: Scenario," ACAPS, July 2021

62 Yemen Economy Tracking Initiative (YETI)

63 "The Latest Collapse of The Yemeni Rial and the Increase in Commission by 58% for Remittances," Yemen Monitor, June 27, 2021

64 Interviews with expatriates and recipients of remittances conducted between 8 March and 4 April 2021.

65 Interviews with expatriates and exchange shop owners conducted between 8 March and 4 April 2021.

66 Interviews with expatriates and recipients of remittances conducted between 8 March and 4 April 2021.

67 Interviews with expatriates conducted between 8–24 March 2021.

68 Interview with an expatriate conducted on 11 March 2021.

69 Interviews with journalists, expatriates and recipients of remittances conducted between 8 March and 4 April 2021.

70 Interviews with journalists, expatriates and recipients of remittances conducted between 8 March and 4 April 2021.

71 Interviews with journalists, expatriates and recipients of remittances conducted between 8 March and 4 April 2021

72 Interviews with journalists, expatriates and recipients of remittances conducted between 8 March and 4 April 2021

2.5 Remittance flows and social mobility

Access to remittances is one of the main determiners of upward social mobility. This is especially the case in Taiz, where a large portion of the newly emergent middle class over the last two decades has been linked to expatriate remittances and wealth earned abroad.⁷³ Access to remittances has also been a major determiner of access to education for subsequent generations. Interviewees stressed that expatriate labour dynamics have also been a driver of rural-urban migration in Taiz.⁷⁴ Social mobility driven by remittance flows within Yemen is also linked to expanded access to income abroad.⁷⁵ In Taiz, for example, Yemenis who have worked abroad for decades have transitioned away from construction and other low-income and low-skilled labour into more established businesses.⁷⁶

Given the large number of people dependent on remittance flows in Yemen, understanding inclusion dynamics around these flows is crucial for humanitarian and development actors seeking to adequately understand, predict, and respond to underlying vulnerabilities and needs in Yemen.

This ‘clustering’ of access to remittance flows has significant ramifications when examining inclusion dynamics by geographical area, community, and social class. This, in turn, plays a role in how economic vulnerabilities and needs are determined throughout the country. One interviewee stated that different districts in Ibb often have unique access to remittance flows depending on historical migration patterns.⁷⁷ Some districts are known for having sent large numbers of expatriates to Michigan, in the US, while others are known for being linked to Yemeni communities in New York.⁷⁸ These districts have different levels of wealth according to the variations within their expat communities abroad, as some communities are linked to wealthy, established businesses within certain economic sectors abroad, while others are not.⁷⁹

73 Interviews with expatriates and recipients of remittances conducted between 8 March and 4 April 2021.

74 Interviews with expatriates and recipients of remittances conducted between 8 March and 4 April 2021.

75 Interviews with expatriates and recipients of remittances conducted between 8 March and 4 April 2021.

76 Interviews with expatriates conducted between 8 March and 4 April 2021.

77 Interviews with journalists, expatriates, and recipients of remittances conducted between 8 March and 4 April 2021.

78 Interviews with journalists, expatriates, and recipients of remittances conducted between 8 March and 4 April 2021.

79 Interviews with journalists, expatriates, and recipients of remittances conducted between 8 March and 4 April 2021.

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81 Interviews with journalists, expatriates, and recipients of remittances conducted between 8 March and 4 April 2021.

82 Interviews with journalists, expatriates, and recipients of remittances conducted between 8 March and 4 April 2021.

83 Interviews with journalists, expatriates, and recipients of remittances conducted between 8 March and 4 April 2021.

84 Interviews with journalists, expatriates, and recipients of remittances conducted between 8 March and 4 April 2021.

85 Interviews with journalists, expatriates, and recipients of remittances conducted between 8 March and 4 April 2021.

86 Interviews with journalists, expatriates, and recipients of remittances conducted between 8 March and 4 April 2021.

87 Interviews with journalists, expatriates, and recipients of remittances conducted between 8 March and 4 April 2021.

88 Interviews with journalists, expatriates, and recipients of remittances conducted between 8 March and 4 April 2021.

2.6 Impact of remittance flows on local economies

Local economies are heavily influenced by remittance flows. For example, the district of Jabal Habashi in Taiz is known for having many former residents now living and working abroad.⁸⁰ This has resulted in a higher prevalence of small businesses, which were started using money that Yemeni workers earned abroad.⁸¹ Similarly, in areas with lower access to remittances, such as the district of Sabir al-Mawadim in Taiz, restaurants, businesses, and cafes are less common.⁸² Poor access to remittances is generally linked to poorer community development outcomes for different areas. Local economies experience some negative impacts from remittance flows, which in turn affect local vulnerabilities. For example, real estate prices in areas with wealth diaspora communities are often inflated beyond national averages.⁸³ These heightened costs of living increase the economic exclusion of poorer, marginalised communities living within the same areas.⁸⁴

2.7 Use of remittance flows for household expenses before and during COVID-19

Interviewees offered varying accounts on how remitted funds are used.⁸⁵ There is relative consensus that, during the conflict, remittance flows shifted to financing household survival needs rather than investing in business opportunities or real estate.⁸⁶ Education costs were a main source of expenses. The goals of migrants tend to differ depending on host country and region from which they came. Interviewees from Taiz stated that most migrant workers abroad intend to return to Yemen.⁸⁷ Those from Ibb (with a large expatriate population in the US) generally remain abroad.⁸⁸ This is likely linked to the residency and naturalisation pathways available in the country of work, with Saudi Arabia and the Gulf easier to access for work but more costly and much harder to achieve full residency rights and citizenship.

The conflict has played a role in changing these dynamics, as families now lean towards finding permanent emigration solutions rather than just viewing it as a temporary means to save money. An increasing number of Yemenis already working in the Gulf and elsewhere are seeking to move their families abroad. This has resulted in a large increase in Yemeni expatriate populations in Egypt, Jordan, Malaysia, and Turkey, among others. Many Yemenis in these countries are dependents rather than earners and are receiving incomes generated by family members either within these countries or, more often, from other countries that would normally be sending these funds back into Yemen. This means that less remittances are being sent to Yemen, which has negative implications for trade and import financing as well as other local economic activities in Yemen.

2.8 Gender dynamics

As Yemeni expatriate labour is predominantly male, remittance dynamics are heavily gendered.⁸⁹ With many male breadwinners working abroad, women have often needed to manage family finances, with wives managing remittance flows more commonly than other members of the family (such as sons or brothers). Several interviewees stressed that, in remittance-dependent households, wives and mothers are generally viewed as more trustworthy and responsible in managing incomes.⁹⁰ It is important to note, however, that women face significant limitations in their ability to receive the transferred funds themselves, often relying upon a male guardian to do, as well as wider difficulties accessing documentation proving identity.⁹¹

2.9 Remittance flows and humanitarian needs

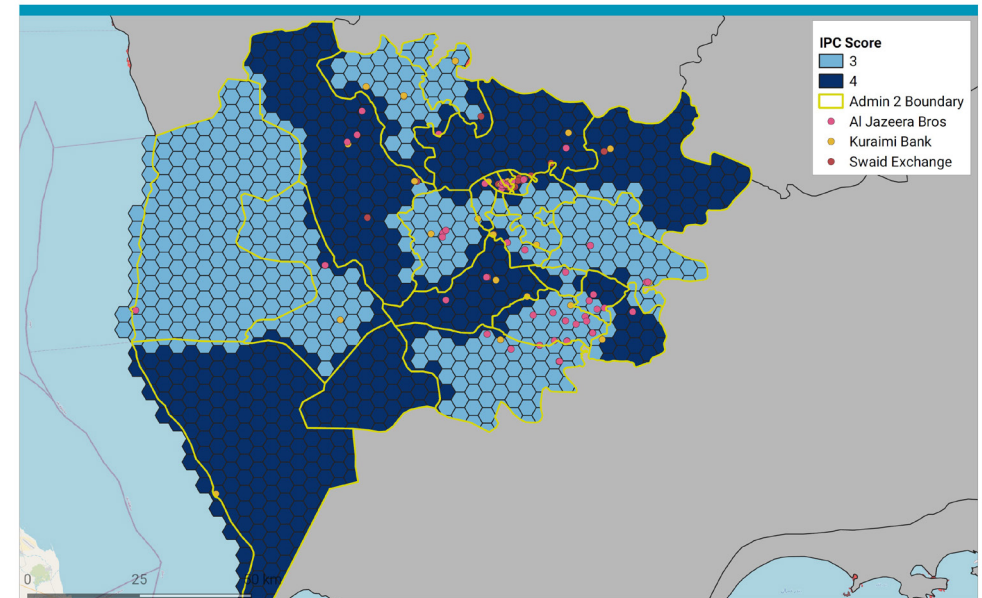
Given the large number of people dependent on remittance flows in Yemen, understanding inclusion dynamics around these flows is crucial for humanitarian and development actors seeking to adequately understand, predict, and respond to underlying vulnerabilities and needs in Yemen. Despite this, such dynamics continue to be poorly understood. Below is a map of FSP locations in Taiz governorate, overlaid against Integrated Food Security Phase Classification (IPC) and population data, which serves as a partial proxy for remittance flows. While more work needs to be done, initial analysis indicates that in districts where FSP clustering is high, IPC indicators are better. This becomes more difficult to interrogate in areas of high population density, where extreme vulnerabilities and wealth coexist in close proximity.

⁸⁹ According to UN data for 2020, out of the 1.3 million Yemeni migrants, about 454,000 were women and 847,000 men.

⁹⁰ Interviews with journalists, expatriates, and recipients of remittances conducted between 8 March and 4 April 2021.

⁹¹ Interviews with journalists, expatriates, and recipients of remittances conducted between 8 March and 4 April 2021.

TAIZZ: IPC SCORE AND FSP LOCATIONS

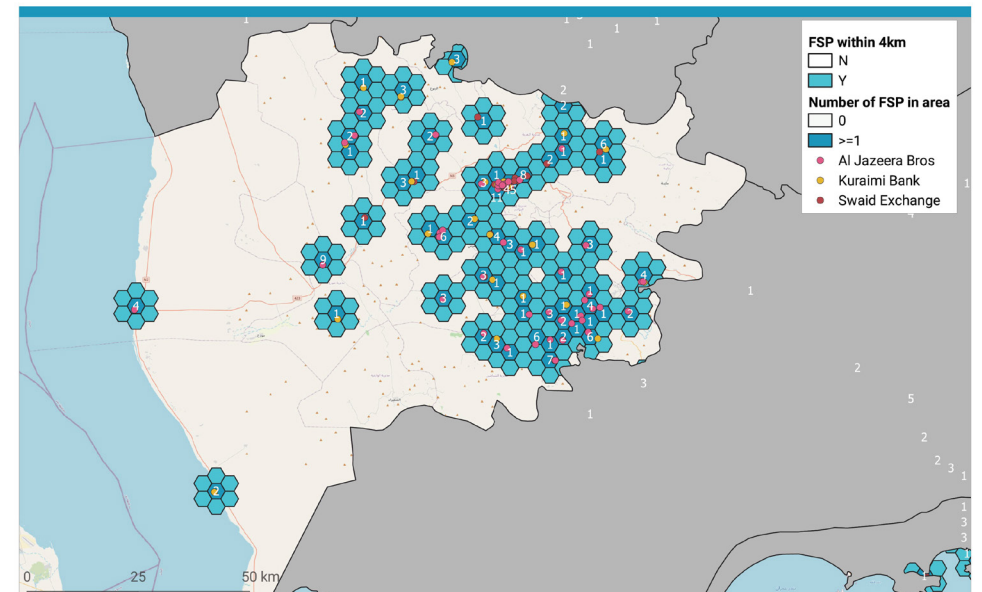


Date created: 03/05/2021

Source(s): ACAPS, Facebook, IPC Info, Al Jazeera Bro, Kuraimi Bank, Swaid Exchange, OCHA, OpenStreetMap

The boundaries and names and designations used on this map do not imply official endorsement or acceptance by ACAPS

TAIZZ: NUMBER OF FSPS AND AREAS WITHIN 4KM OF FSP

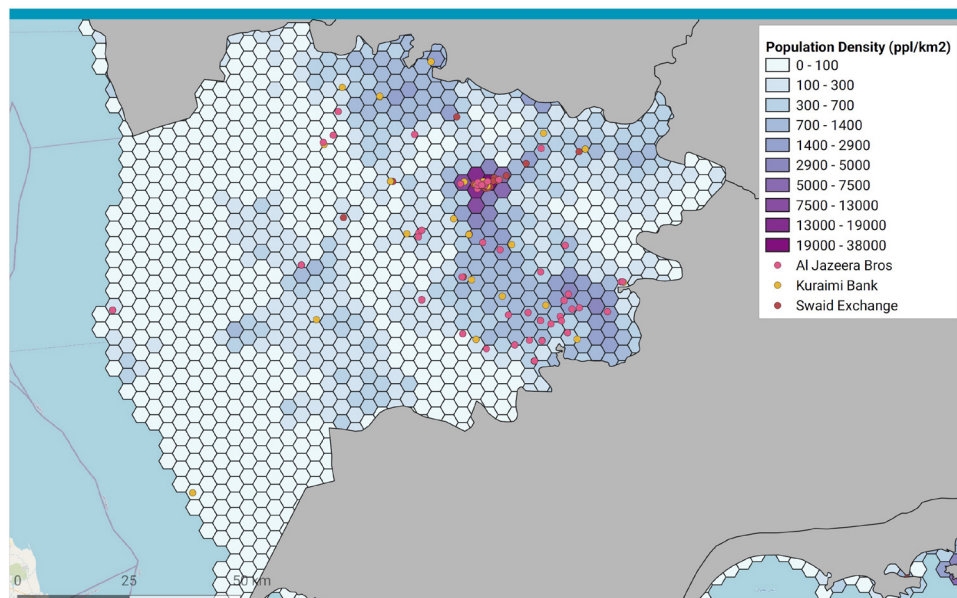


Date created: 03/05/2021

Source(s): ACAPS, Facebook, IPC Info, Al Jazeera Bro, Kuraimi Bank, Swaid Exchange, OCHA, OpenStreetMap

The boundaries and names and designations used on this map do not imply official endorsement or acceptance by ACAPS

TAIZZ: POPULATION DENSITY AND FSP LOCATIONS



Date created: 03/05/2021

Source(s): ACAPS, Facebook, IPC Info, Al Jazeera Bro, Kuraimi Bank, Swaid Exchange, OCHA, OpenStreetMap

The boundaries and names and designations used on this map do not imply official endorsement or acceptance by ACAPS

SECTION 3

MAPPING OF REMITTANCE FLOWS

3.1 Estimating the value of remittances to Yemen

In February 2020, IRG Deputy Minister of Expatriate Affairs Mohammed Al-Adil said that annual remittances to Yemen in 2019 were worth an estimated USD 8 billion and supported up to half of Yemen's 31.6 million population.^{92,93,94} Other Yemeni banking officials question this figure and say it is too high, placing the value of remittances in the range of USD 5–6 billion.⁹⁵ Previous World Bank estimates put the value of remittances in 2016 at almost half the amount: USD 3.8 billion.⁹⁶ The World Bank figure is based on data submitted to the World Bank by CBY and largely accounts for official remittances transferred through formal channels (e.g. Yemeni banks, Western Union, and MoneyGram).⁹⁷ It does not capture the value of unofficial, informal remittances (i.e. cash remittances that are either not recorded or the relevant data is not available).⁹⁸ Hence, the general consensus is that the total value of annual remittances to Yemen was likely higher than 3.8 billion in 2016 and in the years that followed, but to what extent is very difficult to quantify. The range of lower and upper estimates make it very difficult for policymakers and decision makers, as well as international donors, INGOs, and humanitarian actors, to plan socioeconomic and humanitarian assistance programmes appropriately. Attempts to quantify the value of remittances to Yemen are further complicated by the prevalence of in-kind remittances or non-cash transfers that represent a form of remitted value (see the In-kind remittances subsection below for more details).

Before the outbreak and spread of COVID-19, the general view was that a larger share of remittances to Yemen from Saudi Arabia was unofficial cash transfers sent through informal channels as opposed to official remittances sent through formal channels.⁹⁹ This means that a larger total amount of remittances were being sent via informal channels (e.g. hawala

92 "Dr. Al-Adeel: Eight Billion Dollars in Annual Yemeni Expatriate Remittances," Socotra Post, February 11, 2020

93 Yemen Factsheet, April 2021

94 Interviews with senior Yemeni banking officials in 2020.

95 Interviews with a Yemeni FSP and senior Yemeni banking officials in December 2020 and March 2021.

96 "Personal Remittances, Received (Current US\$) - Yemen, Rep.," World Bank, accessed September 9, 2021

97 World Bank estimates in 2012 notably increased from the previous year owing to a recalculation of hard foreign currency being transferred physically outside of Yemen and then deposited in correspondent bank accounts.

98 Wadhah al-Awlaqi, Saleh al-Hada, and Yousef al-Shawthabi, "Yemen's Expatriate Workforce Under Threat: The Essential Role of Remittances in Mitigating Economic Collapse," Rethinking Yemen's Economy, May 31, 2019, https://devchampions.org/uploads/publications/files/Rethinking_Yemens_Economy_No5.pdf. Before the conflict, it used to be more common for citizens to carry their accrued savings in cash with them when returning to Yemen or to send money back with family and/or friends returning to Yemen despite the risk of theft and bribery involved. This activity notably decreased during the conflict, with people preferring to carry a small amount of money with them while travelling back to Yemen as they send most of their accrued savings/foreign currency via hawala agents under their name before they depart to Yemen. Some Yemenis that are returning to Yemen do carry money for others on occasions but not large amounts, with the maximum amounts usually being what is required to cover monthly expenses in Yemen.

99 Wadhah al-Awlaqi, Saleh al-Hada, and Yousef al-Shawthabi, "Yemen's Expatriate Workforce Under Threat: The Essential Role of Remittances in Mitigating Economic Collapse," Rethinking Yemen's Economy, May 31, 2019



agents, money exchangers, and people travelling back to Yemen carrying SAR).¹⁰⁰ A smaller total amount of remittances were sent back to Yemen digitally via Yemeni banks and other official, licensed FSPs, such as Western Union and MoneyGram. Remittances to Yemen sent via licensed money exchangers, such as Bin Yaala Exchange, are also categorised as official remittances.

Some of the reasons behind the preferred use of unofficial, informal channels are explained in more detail below (see Comparison of formal versus informal remittances). Based on conversations with different Yemeni FSPs, it is important to note that there are recurring patterns in terms of the type and total value of remittances that pass through formal versus informal channels.¹⁰¹ There may be discrepancies between the declared and undeclared income of Yemeni guest workers in Saudi Arabia because of workers taking on multiple low-paid jobs despite only holding one legitimate job under a single sponsor.¹⁰² This, and the Saudi regulations on remittances that both relate and limit transfers to the sender's stated salary, may act as an incentive for workers to send under-the-table income through unlicensed money transfer businesses.¹⁰³ The result is that actual remittance flows are larger than those recorded.

It is also important to note that there is a degree of overlap between what is often loosely described as 'official' or 'formal' remittances and 'unofficial' or 'informal' remittances depending on the FSP used by the sender and recipient. For example, there are instances in which remittances that are sent via Western Union are then delivered to recipients in Yemen through money exchange networks that are not authorised agents of Western Union but work with another Yemeni FSP that is an authorised agent of Western Union. This kind of remittance would presumably be recorded as an official remittance sent via Western Union.

3.2 Official/formal remittances versus unofficial/informal remittances

3.2.1 Use of hawala financial services steeped in Yemen's history

It is a common misconception among non-Yemenis that, as a result of the war, most of the Yemeni population lost access to the formal banking system and suffers from a lack of access to financial services. This notion assumes that the Yemeni banking system played a more central role in the lives of the population pre-war than was actually the case, overlooking the importance of the traditional informal banking system (hawala) in everyday economic activity.¹⁰⁴

Yemen has historically been a cash-based economy. Rather than using formal banking institutions, Yemen's population has traditionally opted to transfer money through hawala exchanges. It was only after the country's unification in 1990 that the modern Yemeni banking system was introduced. To account for limited access to the formal banking system, since 2017, UNICEF has provided cash transfers to 1.45 million households (nine million people) using existing hawala networks in all 333 districts in Yemen, with a requirement that all households be able to access a location within five kilometres of their home.¹⁰⁵ This financial culture was reflected in focus group discussions undertaken by an interagency study, with many participants viewing banks as a problematic or unfamiliar option.¹⁰⁶

The hawala system enables households across the country to both send money internally and receive inward local and international money transfers. This system also enables the borrowing and purchasing of essential items on credit. The system itself has more relevance to the trade sector than the financial sector. Before the conflict, Yemeni banks provided short-term credit to traders. During the conflict, this function was transferred to money exchange networks, with Yemeni banks no longer in a position to offer credit. As the conflict has worn on and the economic crisis deepened, the ability to offer credit services has decreased in the face of higher credit demand and unpaid loans – challenges affecting both the supply and demand side of the service. The impact of reduced credit services was felt through different key commodity supply chains.¹⁰⁷

100 Wadhah al-Awlaqi, Saleh al-Hada, and Yousef al-Shawthabi, "Yemen's Expatriate Workforce Under Threat: The Essential Role of Remittances in Mitigating Economic Collapse," Rethinking Yemen's Economy, May 31, 2019

101 Interviews with operational actors in June 2021.

102 Interviews with operational actors in June 2021.

103 Interviews with operational actors in June 2021.

104 Abdullah Kaid Al-Swidi and Rosli Mahmood, "Yemeni Banking System: Critical Issues and Future Recommended Strategies," European Journal of Social Sciences, 20(4), 2011. Pre-conflict research into the former Yemeni banking system identified that the number of bank account holders did not exceed 4% of the Yemeni population, with less than one million deposit accounts opened at financial institutions in 2011. A 2010 report by the Yemen Businessmen Club found that in an Industrial Enterprises Survey of 481 major business in Yemen, only 47% had a bank account in any commercial bank, with the rest relying on their resources to finance their projects.

105 REACH, "Inter-agency Joint Cash Study: Market Functionality and Community Perception of Cash-Based Assistance," ReliefWeb, December 18, 2017.

106 REACH, "Inter-agency Joint Cash Study: Market Functionality and Community Perception of Cash-Based Assistance," ReliefWeb, December 18, 2017

107 In 2017, the UN-led Emergency Food Security and Nutrition Assessment found that, in urban and rural areas, 59% of households borrowed money or purchased food on credit to cover their monthly basic needs. This system is provided by hawalas, who in some instances are also shopkeepers or are linked to shops enabling households to run an interest-free credit account with them, which they pay off each month to purchase essential goods. The difficulty of providing credit services has increased with the conflict. "Yemen Food Supply Chain," ACAPS, December 16, 2021

3.2.2 Different types of unofficial and informal remittance services

Unofficial and informal remittance services are those carried out without authorisation and/or licensing from the financial authorities in the remittance-source and recipient country in which they operate. This may include money exchange companies. The difference between official and unofficial remittances sent via money exchange companies is essentially whether the money exchange company processing the remittance is licensed or not. Unofficial and informal remittance services are also provided by hawala agents. It is important to note that money exchange companies must be registered in Yemen but may work with unofficial, informal hawala agents, such as agents in Saudi Arabia that operate discreetly and are often employed in other lines of work. The informal hawala networks and agents that operate in these networks build and maintain their market share through a proven track record of delivery that instils trust and confidence among remitters in their services.¹⁰⁸

3.2.3 Different types of official/formal remittance services

Official and formal remittance services available to Yemeni migrant workers and expatriates abroad are those provided by licensed FSPs that operate in the host/remittance-source country in which they are based. The licensing and authorisation are often (if not always) provided by the host country's central bank. In the case of Yemeni migrants and expatriates based in Saudi Arabia, official/formal remittance options are: (1) SWIFT transfers through the formal banking system, (2) international money transfers through global money transfer and remittance companies (e.g. Western Union, MoneyGram, and Xpress Money), (3) electronic remittance services, and (4) licensed money exchange companies, such as Bin Yaala Exchange.¹⁰⁹ For options (1) and (3), the remittances are technically carried out via Saudi banks. The remitter must have a bank account with the Saudi bank; the Saudi bank will coordinate the remittance with a correspondent Yemeni bank, which will execute the payout to the recipient in Yemen.¹¹⁰ Transfer/remittance restrictions are set from the Saudi side in accordance with the Yemeni migrant worker's registered employment, salary, and sponsorship details. If necessary, Yemeni banks may execute the payout of remittances through registered money exchange companies, noting the liquidity problems that Yemeni banks currently face.¹¹¹

In the case of Saudi Arabia and other countries in the region, there are more official/formal remittance options available to Yemeni migrant workers and expatriates compared to Yemenis based in other remittance-source countries in Europe and North America. For example, in the UK and US, owing to derisking measures against Yemeni banks, no direct SWIFT transfers

or electronic remittances can be sent from remitters to recipients in Yemen. Yemeni migrant workers and expatriates in these countries can, however, send remittances using global money transfer and remittance companies such as Western Union and MoneyGram. The payout in Yemen can be completed by Yemeni banks and/or registered exchange companies that are official agents of these global remittance companies.

3.2.4 Formal versus informal remittances during the conflict

Decisions over which FSP and channel to use are presumed to be based on an assessment of costs, risk, access, and ease. The table below shows a comparison between remittances sent via the formal banking system (SWIFT transfers, not remittances sent via mobile phone applications), MoneyGram, and Western Union on the one hand versus hawala/money exchangers on the other hand.

Table 1: Formal banking system versus hawala services

	FORMAL BANKING SYSTEM	HAWALA
Access	Limited access to correspondent banks and, by extension, to the international financial system.	Well-connected network with minimal conflict-related disruption. Well-established networks in place in GCC countries, underpinned by tribal kinship and business partnerships.
Process	Stringent national and international regulation and compliance procedures required for transfers, including sender and receiver identification.	No documentation required, with transfers conducted based on trust and track record.
Cost	Higher transfer costs caused by a lengthier process through intermediary institutions and risks associated with compliance and regulation requirements for institutions at each end.	Relatively low-cost because of minimal overhead and high competition.
Transfer time	Lengthier processing and clearing times.	Immediate transfer – only time outlays being agent correspondence and physical delivery/collection.

¹⁰⁸ Interviews with operational actors in December 2020, January 2021, and June 2021.

¹⁰⁹ Interviews with operational actors in June 2021.

¹¹⁰ Interviews with operational actors in June 2021.

¹¹¹ Interviews with operational actors in June 2021.

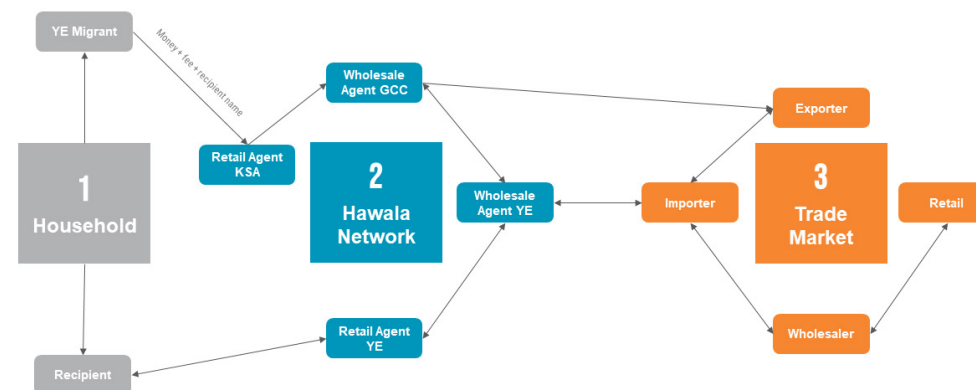
Delivery	Longer travel time and costs for collection because of limited branches – generally only in larger cities. Previously paid out rial at the official rate, but conflict-related liquidity drain has led to payouts below market rate.	Vast nationwide networks of branches and agents, with coverage in rural areas. Remittances paid out in the original currency. Market exchange rate offered based on the beneficiary's willingness to exchange.
Functionality	Uncompetitive and vulnerable to the narrow client base, low reserve requirements, no convincing lender of last resort. Conflict has further eroded trust as a result of liquidity shortages.	Perceived as more powerful than banks, with a high level of trust earned from resilience over time. Well-connected to influential political figures. Perform functions beyond transfers – many usually associated with the formal banking system (e.g. facilitating business transactions and investments). High levels of liquidity and healthy flow of the rial and foreign currencies – the latter largely from remittance inflows.

Source: ACAPS

3.3. Tracing remittances through hawala networks: remittance inflow and trade finance

The figure and text below map the inflow of remittances and trade finance outflows that occur throughout the hawala network, as conducted at different points in the process. Details are provided on the different actors involved, the different roles and activities of hawala agents, and the engagement of traders with hawala agents to secure foreign currency for imports (and other trade purposes) in exchange for rial that enables hawala agents to complete remittance payouts in rial.

Figure 3: Informal remittance pathways to Yemen



Source: ACAPS

Remitter

- A Yemeni migrant gives the hawala retail agent the remittance amount plus transfer fees (both in physical cash) and provides the name of the recipient in Yemen. The migrant decides which hawala agent to use based on different factors, such as the agent's reputation, location, service fees, and the recipient's access to the payout agent in Yemen. While the migrant does not receive an official receipt, they do receive a transfer code and the name of the delivering network in Yemen.
- The migrant calls their family in Yemen with the remittance details – amount, code, and delivering network – and will then call back to confirm that the family received the full remittance amount as paid via the hawala agent.
- Migrants that have returned to Yemen are known to sell their personal holdings of FX currencies to the hawala agents in Yemen, providing a partial FX cover for agents to pay out other incoming migrants remittances. Traders also supply hawala networks with FX, which contributes to the remittance payout to the recipient in the same currency that the remitter sent.

Recipient

After the migrant communicates the remittance details to the recipient family member/relative, the recipient travels to the closest agent of the specified hawala network. The recipient takes their national ID and the remittance code to receive the total amount in its original currency – e.g. SAR in physical cash – unless they decide to exchange it for rial at the market exchange rate, which in this case enhances the hawala agent’s ability to pay out other remittances in SAR.

Hawala agents

The informal remittances process that occurs via hawala networks is an extremely competitive and efficient market. For hawala networks to preserve their reputation and market share, integration within the framework is largely limited to kinship and based on trust and confidence.

- As the retail hawala agent in Saudi Arabia receives the remittance amount and fees from a Yemeni migrant, the hawala agent then notifies the wholesale agent located/active in the main cities in Saudi Arabia to provide the remittance details (the recipient’s full name, the full remittance amount, and delivery location in Yemen) to process the cross-border transfer with the wholesale hawala agent in Yemen. The main hawala agent in Yemen records the transaction and generates a code and name of the hawala network. This information is submitted to the wholesale agent in Saudi Arabia, who will then share it with the retail agent in Saudi Arabia.
- Upon receipt of remittance details, the retail hawala agent in Yemen then disburses the remittance in the same currency or in rial based on the beneficiary’s preference, without any deduction of the remittance amount.
- Retail hawala agents in Saudi Arabia and Yemen are the focal points for the delivery of remittances and physical currency arrangements. For instance, the retail hawala agents in Saudi Arabia accumulate SAR (in cash) and transport it to wholesalers for import/trade financing purposes, while traders in Yemen deposit their sale turnover into accounts with the hawala agents to then buy FX and make transfers to facilitate import financing.
- Whenever an importer in Yemen needs to renew their commercial stock, they make a deal for an import financing transfer that includes both buying FX and transfer of the funds abroad. The hawala agent in Yemen processes the transaction, per the agreed rate and fees, with their agent in Saudi Arabia.

Traders

- Importers (and their subset chain actors) provide the money exchanger/hawala agent with physical rial banknotes for their daily sale and purchase of FX in the local market and remittances payout if recipients request payment in rial.
- At the same time, importers accelerate the use of accumulated FX supply in Saudi Arabia from migrants’ remittances for import financing as fast as possible to avoid seizure by security authorities.
- Import financing through hawala networks provides the trade/import sector with immediate and lower-cost FX.
- The role of hawala agents in Yemen in facilitating import financing is to process transactions, but the physical FX is essentially managed in the remittance-source country.

Settlements

There are multiple ways for hawala agents to clear out cross-border transactions, including:

- Electronic accounting and settlement systems in Yemen, as the main local and regional hawala networks, are owned by the same families in the Yemeni and Saudi markets. Based on the codes, the incoming remittances are recorded in the local hawala network system as debt, while the outgoing trade financing transactions are recorded as credit, after which the net is then calculated.
- The net credit due for hawala agents in Yemen could be transported via smuggling mechanisms into Yemen, while the net debt due on local hawala agents in Yemen might be paid through external bank accounts that are held abroad by Yemeni importers.
- There may also be designated clearing houses in regional financial hubs such as Dubai.

3.4 Key market players

Money exchangers

In terms of money exchangers involved in the payout of remittances, it is important to note the growth and structure of money exchange companies in Yemen. During the conflict, there has been a sharp rise in the number of money exchange businesses (both licensed



and unlicensed) operating in Yemen. According to the Sana'a Center for Strategic Studies, in 2014 there were 605 licensed money exchange businesses and no unlicensed money exchangers.¹¹² In 2017, there were an estimated 1,350 money exchange businesses, of which 800 were unlicensed.¹¹³ FX companies are licensed, but sole money exchange shops are not always licensed. Unlicensed companies often operate under the umbrella of larger, licensed money exchange companies either informally or as agents. The rise in the money exchange subsector occurred at a time in which Yemeni banks were struggling in terms of liquidity, access to foreign currency, and regional and international banking and financial networks. As a result, the importance of money exchange companies and their respective hawala networks to facilitate imports increased.

There are several money exchange companies that have a larger market than other, smaller money exchange companies. For the sake of simplifying the mapping of key money exchangers, the following is a list of some of the large money exchangers operating in Yemen: Aden Exchange Company, Al-Akwaa Exchange, Al-Busairi Exchange Company, Al-Hitar Exchange Co., Al-Jazeera Bros. Exchange Co., Al-Khader Exchange, Al-Noaman Exchange Company, Al Nasser Exchange Company, Al Qutaibi Exchange Company, Swaid and Sons Exchange Company.¹¹⁴

Banks

In terms of official or formal remittances, the three Yemeni banks with the largest share of the market are Al-Kuraimi Islamic Microfinance Bank, Tadhamon Bank, and YKB.¹¹⁵ Al-Kuraimi and Tadhamon have a large share of the official remittances market in the Gulf countries, which includes Saudi Arabia.¹¹⁶ YKB is one of the main agents for Western Union, with about half of all Western Union remittances to Yemen going through YKB.¹¹⁷ This relationship is of critical importance for countries such as the US, the UK, and other European countries, where there are no direct relationships with Yemeni banks and where Western Union is the preferred platform for sending remittances to Yemen.¹¹⁸ (For more details, see the subsection 3.5 Correspondent banking, AML and CFT.) Al-Kuraimi and Tadhamon are also agents for Western Union.

112 "The Yemen review – August 2018," Sana'a Center for Strategic Studies, September 6, 2018

113 "The Yemen review – August 2018," Sana'a Center for Strategic Studies, September 6, 2018

114 Interviews in July 2021.

115 Interviews with operational actors in December 2020 and June 2021.

116 Interviews with operational actors in December 2020 and June 2021.

117 Interviews with operational actors in June 2021.

118 Interviews in March 2021.

119 Interview on 30 March 2021; Pete Salisbury, "Bickering While Yemen Burns: Poverty, War, and Political Indifference," The Arab Gulf States Institute in Washington, June 22, 2017

120 Ryan Bailey and Anthony Biswell, "Yemen Economic Bulletin: Lebanon's Financial Collapse Traps Yemeni Banks' Money," Sana'a Center for Strategic Studies, May 8, 2020, <https://sanaacenter.org/publications/analysis/9948>. In November 2019, the Lebanese financial system started to collapse; by 2020, Lebanese banks had introduced limits on withdrawals and external transfers. By March 2020, Lebanon defaulted on its external debt obligations. Up to USD 240 million in deposits from Yemeni banks are currently trapped in the insolvent Lebanese banking system. Some of these deposits were linked to the CBY-run letters of credit system for food importers.

121 Interviews in January and March 2021.

3.5 Correspondent banking, AML and CFT

Since 11 September 2001, Yemeni banks have faced varying degrees of derisking measures. Additional derisking measures were introduced after the escalation of the conflict in March 2015, making it more difficult for Yemeni banks to connect with foreign banks – especially in the US, the UK, and other European countries where correspondent accounts and banking services were suspended.¹¹⁹

Because of additional derisking against Yemeni banks in 2015, these banks and their clients became more dependent on corresponding transaction and banking services provided by Lebanese banks. The onset of the financial and Lebanese banking crises in November 2019 removed Lebanon as an option for corresponding banking.¹²⁰ A number of banks in other countries continue to offer Yemeni banks correspondent banking services, such as those located in Bahrain, China, Jordan, Kuwait, Oman, Qatar, Saudi Arabia, Turkey, and the United Arab Emirates (UAE), among others.¹²¹

For certain countries in Europe and North America, there are broad concerns over Yemeni banks and money exchangers' compatibility with international AML and CFT standards. Such concerns shaped the decisions made by banks in North America and Europe to apply additional derisking measures against Yemeni banks and tightened restrictions in terms of money transfers to the country.

The difficulty that individual Yemeni banks face when trying to provide reassurances to external actors over AML and CFT compliance is that they are being treated on a collective rather than individual basis. The easier, less time-consuming decision for non-Yemeni FSPs to take is to limit engagement with all Yemeni banks. There are, however, varying degrees of compliance with international AML and CFT standards among different Yemeni FSPs. Several Yemeni banks use effective compliance systems (AML Monitoring System and Swift Sanctions Screening) that are linked to the latest internal Office of Foreign Assets Control, Organisation for Economic Co-operation and Development, and EU blacklists. Some of these banks have internationally recognised accreditation to demonstrate adherence to AML and



CFT, such as the Certified Anti-Money Laundering Specialist certificate. Accreditation is not the only determining factor though, with other measures and actions by banks that are also taken into consideration when assessing a bank's level of compliance with AML and CFT.

Blanket derisking measures against Yemeni banks are viewed in Yemen as a contributing factor behind the shift of financial flows from the formal to informal banking sector. Compared to before the conflict, there are now decreased financial flows occurring through the formal banking sector and increased financial flows through more informal channels. With Yemen's financial cycle turning outside of the formal banking sector and through more informal channels, it is now more difficult to monitor financial transactions to and from Yemen. It is therefore more difficult to uphold AML and CFT principles regarding Yemen. Another, more recent factor concerns the perceptions of the internationally recognised CBY-Aden and its internal proficiency regarding AML and CFT. Despite the technical support provided to CBY-Aden from different external actors, the reality is that CBY-Aden is not operating as effectively as it could and does not engender confidence regarding AML and CFT compliance. CBY-Aden has struggled to establish a clear and enforceable regulatory framework for the banking sector (both Yemeni banks and money exchangers). One of the most profound (yet least discussed) effects of the CBY headquarters transfer in September 2016 was that it left a regulatory vacuum from which the sector has yet to recover. CBY-Aden's struggles have played a large role in shaping the general perception of Yemeni FSPs.

As noted above, the extent to which derisking measures are applied varies from country to country. Not only do several banks in certain countries maintain correspondent bank connections with Yemeni banks, but there is also a seemingly greater acceptance of the integration and crossover of formal and informal financial networks, including the hawala system. Remittances from neighbouring Gulf countries continue to flow through hawala networks to recipients in Yemen, in part owing to the wider tolerance of this practice and the necessity of broader partnerships between formal transfer institutions and domestic informal service providers. Effective policies designed to regulate, improve, and promote good services will likely encourage this trend.

During the conflict, there have been two separate instances, however, in which two prominent money exchange companies were sanctioned. The first concerns the decision that the US Department of Treasury and the UAE made in November 2016 to designate Al Omgy and Brothers Money Exchange (Al Omgy Exchange) and the company's two owners Said Salih

Abd-Rabbuh al-Omgy and Mohammed Salih Abd-Rabbuh al-Omgy as providing support to terrorists or acts of terrorism. The designation was made in response to a negative verdict on how Al Omgy Exchange operated during the period in which Al Qaeda in the Arabian Peninsula controlled Mukalla, Hadramawt, from April 2015 to March 2016.¹²²

In June 2021, the US Department of Treasury accused one of Yemen's biggest money exchange companies, Swaid & Sons for Exchange Co., of facilitating the transfer of funds to the Islamic Revolutionary Guard Corps Quds Force (IRGC-QF) officials allegedly operating in Yemen.^{123,124} Both Swaid & Sons for Exchange Co. and Al Omgy Exchange strongly refute their respective designations. A detailed assessment of both cases is beyond the scope of this report.

Al Omgy Exchange's designation had a big impact on its share of the market in Saudi Arabia, the UAE, and Yemen. Other financial services providers filled the market gap. Despite Al Omgy Exchange's efforts to overturn the designation, with the support of CBY-Aden, the designation remains in place at the time of writing. The listing of Al Omgy Exchange and Swaid & Sons for Exchange Co. impacts remittance inflows, with remitters preferring other FSPs. The recent designation of Swaid & Sons may foster heightened anxiety among remitters about sending remittances through money exchange companies and more informal networks.

3.6 In-kind remittances

When examining the nature and extent of remittance flows to Yemen, it is important to factor in-kind remittances into the equation. In-kind remittances are non-cash transfers that represent a form of remitted value. They are often sent as a means of providing the recipient with an item that is either cheaper or more easily obtained outside Yemen than in-country. They are also sometimes sent with the objective of enabling the recipient to generate income through the re-selling of received items and therefore cover the cost of other essential goods and services. Throughout the conflict, Yemeni migrant workers and expatriates have continued to send different goods to Yemen.¹²⁵ Some transport the goods back personally when travelling home; others send goods home through family or friends.¹²⁶ In Saudi Arabia and other Gulf countries, some Yemeni nationals use private courier services that operate from Riyadh, Jeddah, and other locations in the Gulf. Couriers collect goods and transport them in pick-up trucks to Yemen. Popular items include clothes and consumer electronics.¹²⁷

122 "Treasury Designates Financial Supporters of al-Qaida in the Arabian Peninsula," U.S. Department of the Treasury, November 1, 2016

123 "Treasury Sanctions Network Financing Houthis Aggression and Instability in Yemen," U.S. Department of the Treasury, June 10, 2021

124 "Counter Terrorism Designations; Iran-Related Designations and Designations Removals; Syria Designations Updates and Designations Removals," U.S. Department of the Treasury, June 10, 2021

125 Interviews with operational actors conducted in March–April 2020 and an in-kind remittance questionnaire that was conducted with a Saudi-based courier company in March 2020.

126 Interviews with operational actors conducted in March–April 2020.

127 Per an in-kind remittance questionnaire that was conducted with a Saudi-based courier company in March 2020.

Assessing the value of in-kind remittances and differentiating them from commercial activity is beyond the scope of this report. The classification of in-kind remittances is complicated by the fact that Yemenis are transporting/importing new and second-hand goods as part of a growing market, a principal component of which includes used cars. The used car import market has been boosted by the introduction of import restrictions on new cars. These used cars are purchased in neighbouring Gulf countries and then either shipped or driven to Yemen (or both). According to one key informant, used cars are also being sent from the US – possibly via South Korea, a primary export location for used cars that are currently entering Yemen.¹²⁸ Import data shows that second-hand cars are being imported regularly to Aden and Nishtun. Used cars are also being imported via Salalah, Oman, and then transported into Yemen overland via the shared Oman-Yemen border in Al Mahrah governorate.¹²⁹ The same informant noted the Salalah-Al Mahrah link when stating that US-based Yemeni nationals are deciding to send used cars to families in Yemen because of the cost and difficulty of sending money from the US.¹³⁰

SECTION 4

REGIONAL LABOUR MARKETS, POLICIES, AND THE CONTRASTING STATUSES OF YEMENI MIGRANT WORKERS AND EXPATRIATES

Official estimates of the number of Yemeni migrant workers and expatriates are difficult to obtain, as is accurate data on the total value of remittances from individual remittance-source countries. Official figures are likely an underestimation of the actual figures. This is the result of a number of factors, such as (1) the presence of Yemeni nationals working informally and seeking to escape detection by local security, legal, and financial authorities, (2) strong and consistent anecdotal evidence that suggests a larger share of remittances to Yemen continue to pass through unofficial and informal channels as opposed to official, formal channels and (3) limitations regarding the monitoring, evaluation, and updating of records concerning the number and status of Yemeni migrant workers and expatriates.

Despite these limitations, official remittance data provides one of the best available frameworks to understand the weighting of remittances to Yemen by sender country. Saudi Arabia represents by far the largest source of remittances to Yemen and is home to the largest number of Yemeni migrant workers and expatriates. It is therefore critical to understand the impact of internal developments in Saudi Arabia on Yemeni nationals based in and working in the kingdom and how these developments impact remittance flows to Yemen.

Official UN Migrant Stock data (based on census figures) since the beginning of the Saudi-led coalition military intervention in Yemen points to an increase in the number of regular Yemeni migrants in Saudi Arabia, which translates to an increase in general remittance flows to Yemen.^{131,132}

128 ACAPS' key informant interview conducted on 7 July 2020.

129 Per import data shared with the authors of this report.

130 ACAPS' key informant interview conducted on 7 July 2020.

131 United Nations Department of Economic and Social Affairs, "International Migrant Stock: The 2017 Revision," United Nations, accessed September 9, 2021. The UN Migrant Stock Data includes data largely gathered from official censuses – though this likely does not account for all Yemeni migrant workers and expatriates.

132 Wadhah al-Awlaqi, Saleh al-Hada, and Yousef al-Shawthabi, "The Essential Role of Remittances in Mitigating Economic Collapse," Sana'a Center for Strategic Studies, May 31, 2019. Shortly after the Saudi-led coalition intervention began, Saudi Arabia offered irregular Yemeni migrant workers a visitor residency and allowed them to continue in their current employment/business temporarily, after which they could obtain permanent residency while being subject to Nitaqat regulations. As of July 2015, around 355,000 Yemeni nationals obtained legal status through the programme, according to UNHCR.

Table 2: Number of Yemeni migrants in Saudi Arabia.

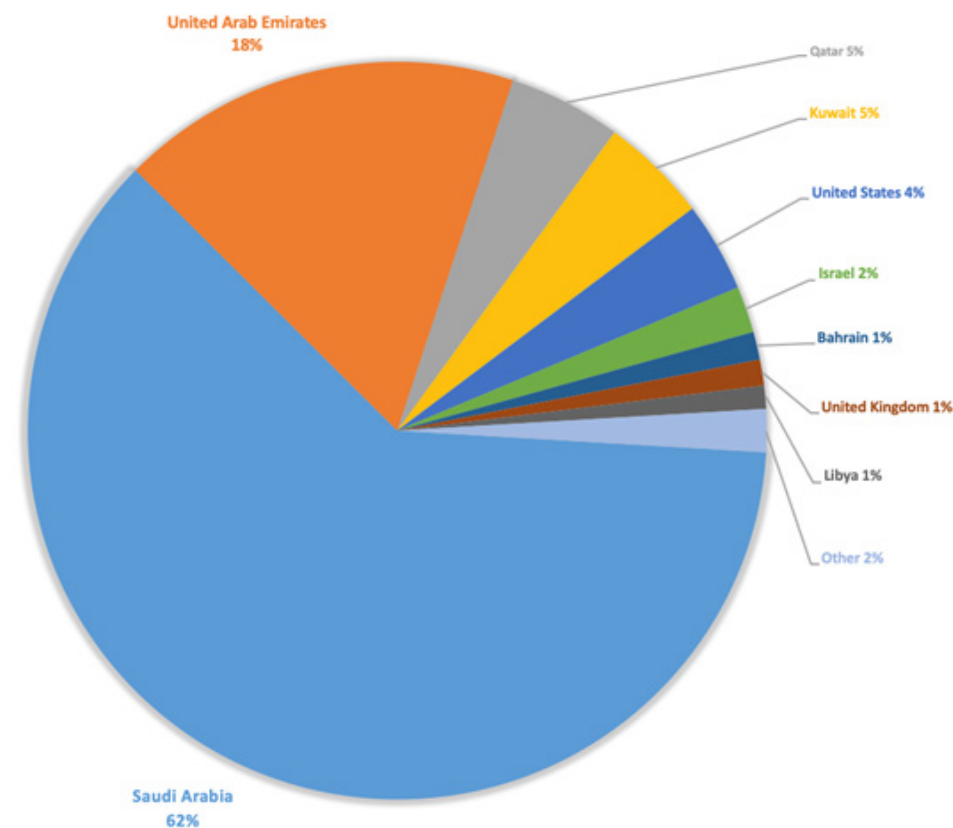
Year	1990	1995	2000	2005	2010	2015	2017	2020
Number	286,032	293,143	301,194	372,063	482,400	616,386	697,296	769,945

Source: UN Migrant Stock Data¹³³

Taking the official UN Migrant Stock data at face value, there has been a 60% increase from 2010 to 2020 and a 25% increase since 2015. As at March 2021, the figure may in fact be higher, with estimates from different, independent sources aligning around a total of 1.9 million Yemeni nationals based in the kingdom, 80% of whom hold a valid residency permit (iqama), and the other 20% a visitor permit.¹³⁴ Accounting for any irregular, unrecorded, or unregistered migrants, the number may be higher.¹³⁵

Saudi Arabia remains by far the largest source of remittances to Yemen (and, to a lesser extent, the Gulf more broadly) and will remain so. Drawing upon the World Bank's 2017 Bilateral Matrix, indicators suggest that the UAE is the second-largest source of remittances to Yemen.¹³⁶ It is therefore important to monitor the impact of any major policy, labour market, and economic shift in Saudi Arabia, the UAE, and the Gulf region as a whole on Yemeni nationals and their ability to either remain in or relocate to the Gulf.

Figure 4: Source of remittances to Yemen by country.



Source: World Bank estimates based on Bilateral Migration Matrix for 2017⁵⁶

Unofficial migration data and anecdotal evidence suggest that, for other remittance-source countries, the landscape has changed over the course of the conflict. This change occurred in part because of the new wave of migration from Yemen to countries outside the Gulf region, namely Egypt, Jordan, and Turkey. Key informant interviews substantiate general observations concerning Yemeni migration trends over the past six years and the contrasting status of Yemeni migrant workers and expats in different host countries.

¹³³ United Nations Department of Economic and Social Affairs, "International Migrant Stock 2019," United Nations, accessed September 9, 2021.

¹³⁴ Interviews in March 2021. In June 2020, the Euro-Mediterranean Human Rights Monitor estimated that there were a total of 1.8 million Yemeni migrant workers (see here).

¹³⁵ Interviews in March 2021.

¹³⁶ "Migration and Remittances Data.," World Bank, November 16, 2017

4.1 Saudi Arabia

In addition to the impact of COVID-19 over the past 12 months, there are several key domestic policies and trends affecting migrant workers and expats based in Saudi Arabia (and, by extension, their remittances). The following subsection looks at the Saudi nationalisation or 'Saudisation' of the private sector, rising living costs, the health of the Saudi economy, and a preliminary analysis of the labour reform initiative slated for implementation in March 2021.

4.1.1 Saudi nationalisation programme

Since the mid-1980s, Saudi Arabia has sought to increase the proportion of Saudi nationals in its workforce. These efforts accelerated over the past decade after the introduction of the Nitaqat programme in 2011 – a Saudi nationalisation programme designed to increase the employment of Saudi nationals in the private sector through a quota system.¹³⁷ In 2016, Saudi Arabia announced Saudi Vision 2030, an ambitious economic and social development programme that included plans to increase the proportion of Saudi nationals in the kingdom's workforce.¹³⁸ Saudi Vision 2030 resulted in changes to the Nitaqat system, including the introduction of a more rigorous process for classification of migrants and restrictions on migrant worker visas for private sector firms in lower-category work.¹³⁹ In January 2020, the Saudi Ministry of Labour and Social Development removed the yellow band from the Nitaqat classifications.¹⁴⁰ As a result, all firms previously classified as yellow were automatically moved into the red band, which deemed them non-compliant with Saudisation regulations. These companies could no longer hire new migrant workers or renew worker permits for employees. Red category firms also cannot permit their foreign national employees to seek employment at another company.

Apart from the domestic and socioeconomic reasons behind the Saudisation policy – most of which are beyond the scope of this report – it is important to note the impact this policy may have on Yemeni migrant workers and the sectors in which they work (e.g. construction,

retail, and wholesale). In 2016–2017, the Saudisation policy affected Yemenis working in mobile phone shops and the gold and jewellery industry.⁶³ In August 2020, Saudi Arabia reduced the number of positions in which migrant workers are eligible to work in the retail and wholesale sectors. This included outlets selling honey, coffee, tea, fruits and vegetables, cleaning supplies, and stationery products.¹⁴¹

4.1.2 Rising living costs

Over the past five years, the cost of living in Saudi Arabia has increased while salaries have decreased, which constricts how much migrant workers can send to their home countries.¹⁴² The combined costs of residency permits, health insurance, rent, and other necessities eat into migrant workers' salaries.¹⁴³ For those with a family in Saudi Arabia, there are also education-related costs. Concerns over reduced income and higher living costs is a major contributing factor to some migrant workers seeking additional, informal, and undeclared forms of employment despite the obvious risks. A previous trend of migrants securing less expensive 'driver' residency permits is indicative of migrant workers struggling to earn enough money to support themselves and their families at home.¹⁴⁴

4.1.3 Health of the Saudi economy

The health of Saudi Arabia's economy is critical for remittances. The Saudi economy has shown signs of strain over the last five years. As a result, the pressure on migrant workers has increased, as they face the prospect of sending less money home than before or even losing their jobs. Preliminary data suggests that the economy grew by only 0.3% over the course of 2019, down from 2.4% in 2018.¹⁴⁵ The kingdom's oil sector contracted by 3.9% in December 2019 – the most significant reduction since 2011.¹⁴⁶ The year ended with a disappointing level of interest in the initial public offering of Saudi oil giant Aramco in December, despite it being the largest share sale to date.¹⁴⁷

137 "Changes to the Nitaqat System in Saudi Arabia," PricewaterhouseCoopers, January 22, 2019. Nitaqat (meaning 'categories') refers to the categories used to classify private sector companies: Platinum, High Green, Mid Green, Low Green (all deemed compliant with quotas on a sliding scale from highest to lowest), and the non-compliant Red band. (Another non-compliant Yellow band was removed in January 2020). At the time of writing, the Nitaqat classification of Saudi companies is determined along with two other factors: the number of employees and the number of Saudi nationals already working for the company.

138 Vision 2030 Kingdom of Saudi Arabia

139 Zaheed Alibhai et al., "Saudi Arabia Revises Nitaqat System and Introduces Mandatory Saifi Programme as Part of its Saudization Drive," Ernst & Young, August 2017.

140 "Saudi Arabia: Ministry of Labor Cancels Yellow Nitaqat Band," Newland Chase, December 12, 2020

141 "Economic/Human Resources and Social Development: Localization of 9 Commercial Activities ... and Promising Opportunities for Saudis in the Labour Market," Saudi Press Agency, August 20, 2020; Ali Al-Dailami, "Yemenis in Saudi Arabia: Less Money to Send Home, More Pressure to Leave", Sana'a Center for Strategic Studies, September 2020

142 Wadhah al-Awlaqi, Saleh al-Hada, and Yousef al-Shawthabi, "Yemen's Expatriate Workforce Under Threat: The Essential Role of Remittances in Mitigating Economic Collapse," Rethinking Yemen's Economy, May 31, 2019

143 Wadhah al-Awlaqi, Saleh al-Hada, and Yousef al-Shawthabi, "Yemen's Expatriate Workforce Under Threat: The Essential Role of Remittances in Mitigating Economic Collapse," Rethinking Yemen's Economy, May 31, 2019

144 Ali Al-Dailami, "Yemenis in Saudi Arabia: Less Money to Send Home, More Pressure to Leave", Sana'a Center for Strategic Studies, September 2020

145 "Saudi Arabia Economic Outlook," Focus Economics, September 7, 2021

146 Abeer Abu Omar, "Stalling Saudi Economy Ripe for Fiscal Rethink as Hurdles Mount," Bloomberg, March 1, 2020

147 Christopher Helman, "Saudi Aramco Earns Barely Enough In 2020 To Support \$70 Billion Dividend—Pricey Stock Trades 'In Its Own Universe'," Forbes, March 22, 2021

Saudi Arabia's attempts to diversify its economy are progressing slowly, largely because of an initial failure to attract more significant foreign direct investment to facilitate Crown Prince Mohammed bin Salman's ambitious plans. Meanwhile, outward investment and the country's public sector wage bill have increased. Crude oil prices nosedived to a 20-year low in March–April 2020 while the first wave of COVID-19 hit Saudi Arabia and spread throughout the country; prices recovered later in the year.¹⁴⁸ In the medium-to-long term, the prospects for the Saudi economy are more positive. A recent announcement that seeks to ensure consultancy firms situate their regional headquarters in Saudi Arabia in return for government contracts indicates that the kingdom is seeking to bolster foreign investment and secure economic activity of expatriates currently residing within the UAE and others Gulf countries.¹⁴⁹ It is unclear whether this announcement will result in a tangible shift, with the UAE viewed favourably by many foreign companies. Saudi Arabia's recent announcement, accompanied by its large investment programmes in tourism, schools, entertainment, and other social infrastructure, is aimed at attracting international business to the kingdom.¹⁵⁰

4.1.4 The labour reform initiative

A new regulation, the labour reform initiative, was introduced in Saudi Arabia on 14 March 2021, whereby non-Saudis will no longer need employer permissions to change jobs, travel abroad, or leave the country permanently.¹⁵¹ Under the new law, non-Saudi labourers must still pay an 'exit' and 'entry' fee but will be able to request it on their own through the Absher system.¹⁵²

The new regulation may impose additional burdens on Yemenis living in Saudi Arabia. The new system requires increased disclosure by labourers, including additional requirements for all migrants to sign an annual contract with a state body and deposit salaries into a formal bank account. Not only will the annual contract impact the working days of migrants, but the required process will also incur additional costs.¹⁵³

Many Yemenis working in Saudi Arabia are involved in irregular labour and financial activities. Yemeni migrant workers are known to register small and medium-sized enterprises (SMEs) in their sponsor's name to increase profit margins. These individuals often have an amicable working relationship with their sponsor, as registering an SME requires a mutual decision

by both a Yemeni worker and Saudi national. A Yemeni either pays the sponsor directly or treats the business as a partnership. The transparency required by Saudi authorities under the labour reform initiative may harm Yemenis who own SMEs and have under-the-table deals with their sponsors. Nonetheless, a possible advantage to the new law is that Yemeni migrant workers will be granted the opportunity to travel to Yemen without permission from their sponsor.

4.2. Key migration trends and contrasting statuses and profiles of Yemeni migrant workers

Over the past six years, several migration trends have emerged, particularly in terms of outward migration and the relocation of Yemeni nationals to other countries in the region. The main drivers of this outward migration are the conflict and deepening economic and humanitarian crises. For some, the decision to relocate may have also been based on political reasons and the fear of being targeted by political rivals. In general, several factors influence the decision-making process behind the relocation of oneself and/or their families, such as personal or family wealth, employment status, visa options, and personal preference (e.g. with specific locations seen as more desirable and/or accepting of Yemenis, such as Cairo).

In addition to those that lived in Yemen before the conflict began but decided to leave during the conflict, there are also instances in which Yemeni nationals already living abroad before the conflict looked to relocate their families that had remained in Yemen. Family members are not necessarily relocated to the same country in which their family member is based or working. There is also a smaller subset of Yemeni nationals that may have relocated from one country in the region to another because of a change in their own employment, living, or visa circumstances. It is also important to note that several people returned to Yemen during the conflict, mainly from neighbouring Saudi Arabia. For this report, the focus shall be on profiling some of the key remittance-source countries and outward migration trends.

The UAE is deemed the second-largest source of remittances to Yemen. According to UN Migrant Stock Data, in 2020 there were an estimated 205,618 Yemeni nationals based in

148 Following a collapse of talks between the Organization of the Petroleum Exporting Countries and Russia at the beginning of March, Saudi Arabia announced plans to hike output, setting off a price war. To tolerate the drop in prices, Riyadh will likely be forced to slash spending, shoulder a widening budget deficit, and possibly delay projects related to its economic reforms; Catherine Ngai and Alex Longley, "Oil Crashes to 18-Year Low With Broken Market Drowning in Crude," Bloomberg, March 29, 2020; Statista, "Average monthly Brent crude oil price from January 2020 to August 2021," accessed 22/09/2021

149 "Saudi Arabia Tries to Lure Multinationals from Dubai," Financial Times, January 10, 2021

150 It is common practice for international expatriates to spend working days in Saudi Arabia and fly to a neighbouring country or home at the end of the week because of the living quality in Saudi Arabia.

151 "Expat Workers Rejoice as Saudi Arabia's Labor Reforms Usher in a New Era," Arab News, March 14, 2021

152 Absher is a smartphone application that allows citizens of and residents in Saudi Arabia to use a variety of governmental services.

153 Interview with a Yemeni economist, January 2021.

the UAE, largely as a result of previous waves of migration.¹⁵⁴ While the number is much lower than other countries in the region, the value of remittances transferred from the UAE is higher. During the conflict, there has been a new wave of migration – including for those who may have benefitted from being related to someone who migrated to the UAE decades ago and then became a UAE citizen, as UAE citizens can sponsor and accommodate other Yemeni relatives.

According to a Yemeni national based in the UAE, the UAE offered people living in conflict-affected countries, including Yemen, the opportunity to apply for a humanitarian visa.¹⁵⁵ The open visa was allegedly only available for a limited period, but successful applicants that relocated to the UAE can renew their humanitarian visas on a yearly basis.¹⁵⁶ For many Yemenis, visiting the UAE or trying to relocate there is not feasible as they simply cannot afford it, unless they have friends and family that are able to accommodate them as a collateral or guarantee.

Elsewhere in the region, there has been a notable influx of Yemeni migrants to Amman, Cairo, Istanbul, and Malaysia, among other destinations. In the case of Cairo and Egypt more broadly, although there is no official data on the exact number of Yemeni expatriates in the country, interviewees on multiple occasions placed the figures as high as one million – a potentially exaggerated but still indicative figure.¹⁵⁷ Earlier estimates in 2018 put the amount at either 300,000 or 700,000.¹⁵⁸ The range of estimates is possibly tied to the fact that a number of Yemenis arrive to Egypt on a visitor visa issued on medical grounds for treatment that is not available in Yemen. There are also many Yemeni politicians and businessmen now based in Egypt. It has become a site of refuge from the conflict among those who can afford it. While it is possible that remittances are being sent from other countries to Yemenis in Egypt, such as from Saudi Arabia, remittances are also certainly flowing in the other direction from Egypt to Yemen. This includes not only wealthier politicians and businessmen but also Yemeni nationals engaged in various SMEs and income-generating activities, such as the cooking and sale of Yemeni food (including baked goods and pastries) and the sale of traditional Yemeni costumes, incense, perfumes, and handicrafts. Yemeni nationals are also thought to be engaged in similar income-generating activities in Malaysia. Such activities have helped

some Yemeni families deal with difficult living conditions faced in both Egypt and Malaysia.

In Malaysia, there are an estimated 15,000 Yemeni students and holders of UN cards (those that register as refugees and are waiting for the chance to migrate to another country), social visas (a special programme created by the Malaysian government for Yemenis) that can be renewed every year, professional visas (e.g. entrepreneurs and academic professors), spouse visas, and tourist visas. According to a Yemeni national based in Malaysia, the number of Yemeni migrants increased after the Houthi capture of Sana'a in September 2014, as people searched for better work and study opportunities, as well as stability.¹⁵⁹ A key factor behind increased Yemeni migration to Malaysia is that Yemenis can obtain a visa upon arrival at the airport.¹⁶⁰ Many students are enrolled in Malaysian universities, and many businessmen that have interests in China and other parts of Asia – particularly importers and those in the financial sector – base themselves in Malaysia.

The number of Yemeni migrants in Turkey sharply increased over the past six years, with a current estimate of 30,000 Yemenis mainly in Istanbul.¹⁶¹ Among these are an estimated 4,000 students, 150 journalists, 200 academics, and some people that operate their own businesses or work in local businesses. Many Yemenis in Turkey do not have a job or any other stable source of income. According to a Yemeni national in Turkey, many families are not able to cover basic needs and expenses such as rent and children's education. Among the Yemeni student population, there are hundreds that depend on remittances sent by their families from Yemen.¹⁶² As is the case with the other countries mentioned above, the number of Yemeni migrants in Turkey may be higher than reported.

In Jordan, there are currently an estimated 37,000 Yemenis, of whom 9,800 are officially employed; the remaining 27,200 include students and businessmen. The number of Yemenis working in Jordan may exceed 20,000, with reports of a high number of illegal workers that face the threat of deportation.¹⁶³

154 United Nations Department of Economic and Social Affairs, "International Migrant Stock 2020," United Nations, accessed September 9, 2021

155 Interview with a Yemeni national in the UAE on May 24, 2021.

156 Interview with a Yemeni national in the UAE on May 24, 2021.

157 Interview with a Yemeni official based in Cairo.

158 Yemenis in Egypt Face Another Kind of Hell," *Al-Monitor*, December 21, 2018

159 Interview on March 23, 2021.

160 Interviews with Yemenis based in Malaysia in March 2021.

161 Turkey hosts a great deal of Yemeni political figures, most of which align with the al-Islah party. For instance, the Yemeni Prime Minister's private secretary resides in Turkey when not in Aden.

162 Interview on March 24, 2021.

163 Interview on March 21, 2021.

SECTION 5

DOMESTIC POLICIES AND REGULATIONS

The economic competition between the Houthis and IRG negatively impacts Yemen's economy and is contributing to a fragmentation of the local currency, local markets, and key state-run economic institutions such as the CBY.^{164,165} Competing monetary, fiscal, and economic policies are difficult for banks, businesses, money exchangers, and ordinary citizens to navigate.^{166,167} In terms of foreign and internal remittances, there are a few aspects of the economic competition between Houthis and IRG that are directly and indirectly relevant. These are largely symptomatic of the uncoordinated and competing attempts by the Houthis and IRG to regulate Yemeni banks and money exchangers. Both sides compete over the local currency, exchange rate stability management, provision of trade financing, access to foreign currency, and monetary data sharing.¹⁶⁸

In terms of the actions that directly impact foreign and internal remittance flows, the most relevant are:

- punitive actions taken against Yemeni banks and money exchange companies, such as the forced temporary closure of their headquarters or specific branches, threats made against and detention of senior officials, and the threat of complete closure and suspension or nonrenewal of licenses¹⁶⁹
- increased efforts to regulate and access data around remittances for the purpose of closer monitoring of financial activity through money exchange companies.

The above factors are affecting remittance flows and internal money transfers in different ways, including increased operational costs and risks and occasional disruptions to remittance flows. For example, disruptions occur when banks and/or money exchangers are forcibly closed or decide to close in response to what they view as excessive interference from either the Houthis and CBY-Sana'a or the IRG and CBY-Aden or both. For the purposes of this study, the focus will be on the widening exchange rate divergence and the proposed creation of a single, unified remittance/exchange network that CBY-Aden tabled in 2020.¹⁷⁰

5.1 Exchange rate diversion

In December 2019, CBY-Sana'a extended the ban on new banknotes (i.e. those printed and issued by CBY-Aden after September 2016).¹⁷¹ The extended ban prohibited citizens in Houthi-controlled territories from holding, using, and circulating new banknotes.¹⁷² The Houthis restricted commerce to be conducted only in old rials in their areas (both old and new banknotes are allowed in government-controlled areas) to protect these areas from local currency depreciation and inflation as a result of CBY-Aden printing more rial banknotes. From an IRG perspective, CBY-Aden has the internationally recognised authority to print more rial.

As a result of the finite amount of currency in Houthi areas, old banknotes became relatively more valuable than more abundant new banknotes, and rates diverged.¹⁷³ The absence of coordination/cooperation between CBY-Sana'a and CBY-Aden has resulted in the bifurcation of the rial and conflicting orders to banks under their purview. Since the old and new banknotes are viewed simply as two different currencies, the challenge is finding efficient ways to exchange money between the two.

On average, in 2020, the value of the old banknotes was YER 603.67 per USD, while the average value of the new banknotes was YER 779.83 per USD; the average difference between the two exchange rates was YER 176.16. Of note are the fluctuations over time, as illustrated in the figure below, and the depreciation of the new banknotes in areas under IRG control in 2021. As of 1 August 2021, the value of the old banknotes was YER 600 per USD, while the value of the new banknotes was YER 1,005 per USD.¹⁷⁴

164 Mansour Rageh, Amal Nasser, and Farea al-Muslimi, "Yemen Without a Functioning Central Bank: The Loss of Basic Economic Stabilization and Accelerating Famine," Sana'a Center for Strategic Studies, November 2, 2016

165 Sana'a Center Economic Unit, "Yemen Economic Bulletin: Widening Exchange Rate Disparity Between New and Old Banknotes," Sana'a Center for Strategic Studies, September 9, 2020

166 Foreign, Commonwealth & Development Office and Small & Microenterprise Promotion Service, "Yemen Business Climate Survey Report 2020: Impact of COVID-19 on Private Sector Activity," SMEPS

167 Sana'a Center Economic Unit, "Yemen Economic Bulletin: Battle to Regulate Banks Threatens to Rupture the Financial Sector," Sana'a Center for Strategic Studies, November 27, 2020

168 "Yemen Food Supply Chain," ACAPS, December 16, 2020

169 Sana'a Center Economic Unit, "Yemen Economic Bulletin: Battle to Regulate Banks Threatens to Rupture the Financial Sector," Sana'a Center For Strategic Studies, 27 November 2020

170 "Battle for Marib: The Yemen Review, September 2020," Sana'a Center for Strategic Studies, October 10, 2020

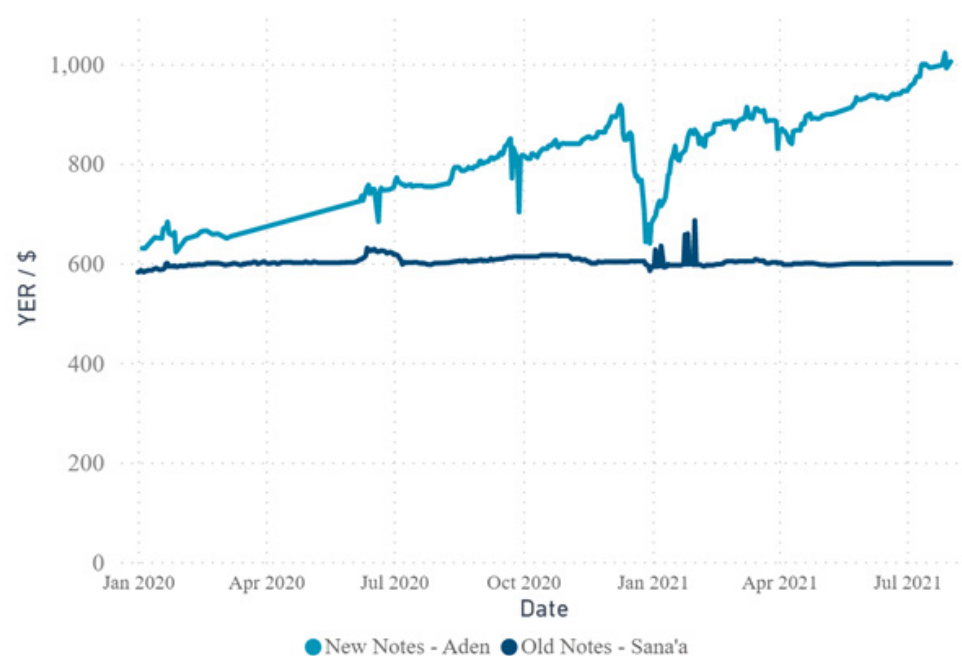
171 Anthony Biswell, "Yemen Economic Bulletin: The War for Monetary Control Enters a Dangerous New Phase," Sana'a Center for Strategic Studies, January 21, 2020

172 Anthony Biswell, "Yemen Economic Bulletin: The War for Monetary Control Enters a Dangerous New Phase," Sana'a Center for Strategic Studies, January 21, 2020

173 Anthony Biswell, "Yemen Economic Bulletin: The War for Monetary Control Enters a Dangerous New Phase," Sana'a Center for Strategic Studies, January 21, 2020, <https://sanaacenter.org/publications/analysis/8674>; Sana'a Center Economic Unit, "Yemen Economic Bulletin: Battle to Regulate Banks Threatens to Rupture the Financial Sector," Sana'a Center For Strategic Studies, November 27, 2020

174 ACAPS, Yemen Economy Tracking Initiative, accessed 9 September 2021

Figure 5: Divergent exchange rates – old and new YER/USD



Source: ACAPS

The competition between CBY-Sana'a and CBY-Aden intensified in 2019–2020, introducing a new set of challenges for Yemenis dependent on either foreign or internal remittances or both. Most affected has been internal remittances, which play an important role in Yemen's economy. Many Yemenis from across the country have sought employment in economically active urban areas, such as Sana'a, Aden, or Marib, and face challenges moving money around the country, especially across conflict lines.¹⁷⁵ For those sending money from an area under IRG control to a recipient in Houthi-controlled territories, the difference in exchange rates is subtracted from the total amount sent.

5.2 CBY-Aden's single, unified network

In October 2020, CBY-Aden announced that it would create a unified money transfer network comprising money exchange companies and their respective hawala networks under CBY-Aden's supervision.¹⁷⁶ The unified network is intended to be a new, joint company and is expected to only include money exchangers that are headquartered in areas outside of Houthi control.¹⁷⁶ CBY-Aden is working to establish the network in an effort to ensure that FSPs work in accordance with CBY-Aden regulations and policies.

CBY-Aden is struggling to assert its authority over different financial and economic actors compared to CBY-Sana'a.¹⁷⁷ From September–December 2020, there was a notable period of escalation by CBY-Aden against Yemeni banks and money exchangers as part of CBY-Aden's attempts to secure increased access to monetary data (for AML-CFT purposes) that it believes is being withheld, possibly at the behest of Houthi and CBY-Sana'a. CBY-Aden also hopes that the network will enhance its ability to monitor money exchangers' and hawala agents' activities to obtain greater insight into remittance flows.

METHODOLOGY

- Initial research was conducted in March–April 2020. The research later resumed and was expanded in December 2020 and concluded in July 2021. A number of different Yemeni and international technical experts peer-reviewed the paper at various stages of the drafting process.
- COVID-19 questionnaire: Mercy Corps and ACAPS partnered with the CCY to conduct a questionnaire that sought to examine the impact of COVID-19 on foreign remittances from March–December 2020. The study was carried out in December 2020 and specifically focused on foreign remittances sent through informal channels (e.g. money exchangers) and the accompanying remittance costs. The questionnaire was distributed to 31 money exchangers in Aden, Al Dhale, Al Hodeidah, Amanat Al Asimah (Sana'a), and Taiz governorates. In addition to the questionnaire, this report also draws upon interviews that the CCY conducted as part of its Remittance Tracker work. The Remittance Tracker is a monthly questionnaire that aims to examine the impact of COVID-19 on remittances to Yemen. The monthly questionnaire was conducted in 12 different districts in six governorates – Aden, Al Hodeidah, Hajjah, Lahj, Sana'a, and Taiz.

¹⁷⁵ For individuals that sought employment in IRG territory, a primary destination has been Marib, where there have been relative stability, job opportunities, and local development from 2016 until March 2020, when the Houthis started attacking Marib with renewed vigour. The financial pull of Marib saw individuals leave their households in Houthi areas and look for work in Marib.

¹⁷⁶ Interview with a senior banking official on 29 March 2021.

¹⁷⁷ Interview with senior banking officials in January 2021.

- **Key informant interviews:** The research team used a qualitative approach to gain in-depth knowledge on the impact of COVID-19 on remittances. Overall, a total of 39 key informant interviews were conducted from November 2020 to July 2021, with key stakeholders including (1) senior officials at prominent Yemeni banks and money exchange companies, (2) accountants and financial officers at Yemeni companies that pay employees located both inside and outside Yemen, and (3) humanitarian and development actors. For the subnational focus, stakeholders in the districts of Jabal Habashi and Sabir al-Mawadim in Taiz, Ibb, and the district of As Sawadiyah in al Bayda were also contacted to gain a better understanding of remittance dynamics within varying socioeconomic areas in Yemen and assess the impact of COVID-19 on these dynamics.
- **Key informant interviews and survey of Yemeni migrant workers in Saudi Arabia:** Given the importance of Saudi Arabia as a source of remittances to Yemen, engagement with Yemeni migrant workers in Saudi Arabia was deemed a priority. In addition to several one-on-one interviews, an online remittance survey was also distributed among Yemeni migrant workers (for more details, see Appendix I: Remittance Survey for Yemeni Migrant Workers in Saudi Arabia). A total of 46 respondents participated in the online survey that was carried out in March and the first week of April 2020. Participants filled in and submitted their responses anonymously. The survey was initially drafted in English and then translated into Arabic. Independent content and language reviews were carried out, with some adjustments made upon review. The survey aimed to gauge (1) the frequency and preferred mode of transfer for personal remittances, (2) the currency in which the remittances are sent and received, (3) average costs of sending the remittances, (4) number of people benefitting from and dependent on the remittances sent home, and (5) whether the beneficiaries have another source of income. It did not examine the impact of COVID-19.
- **Extensive data analysis** was conducted on a range of pre-existing and new datasets to support the research and findings present within the paper. This includes a pilot dataset of FSP locations in Taiz, which was overlaid against population, geographic, and IPC data.

LIMITATIONS

ACAPS has a moderate degree of confidence in the reliability of this report, despite the limitations of some of the primary data used. The report does not claim to be a definitive breakdown of remittance flows to Yemen and internal remittances and highlights limitations throughout. The study is intended to provide critical information, analysis, and recommendations that might assist policy and programmatic discussions, in addition to providing a springboard for follow-up research.

The March/April 2020 remittance survey and the December 2020 COVID-19 questionnaire are helpful guides for pre- and post-COVID-19 remittance activity. Nonetheless, it is important to note that the number of participants in the survey and the questionnaire are limited and may not fully represent either broader sections of the Yemeni migrant worker and expatriate population in Saudi Arabia or money exchangers in Yemen.

Low levels of participation in the March 2020 survey resulted in part from the imposition of COVID-19 restrictions (the survey had to be carried out online and not in person). While the survey was distributed among a trusted network of Yemeni migrant workers, it would be of great value to conduct a similar survey in the future as part of further research. As for the December 2020 COVID-19 questionnaire, the level of participation was limited in number and scope, covering only a handful of governorates. It did not include Sana'a, not least because of concerns over the sensitivity of any remittance-related research and how it might be perceived by Houthi authorities.

As noted throughout the report, there are clear limitations regarding the 2019 remittance and migration data obtained while conducting research for this report. The data is meant to be indicative rather than definitive. The range of estimates for the total value of remittances to Yemen in 2019 are illustrative of the difficulties in trying to accurately estimate and verify the total value. The fact that a significant percentage of remittances are unofficial, unrecorded cash remittances that pass through informal channels makes data gathering very difficult. Regarding migration data, the information obtained and presented was intended to highlight some of the major migration trends (e.g. continued and increased outward migration to Saudi Arabia and increased outward migration to other countries in the region and further afield). Further research would be required to cross-check and verify this data.

Despite the limitations, ACAPS balanced and cross-checked the information provided in the survey and questionnaire through key informant interviews with relevant officials and experts who are knowledgeable on different aspects of remittances to Yemen. This report is based predominantly on key informant interviews and primary data collection and verification conducted with the support of operational actors in Yemen and the broader MENA region. As part of the fact-checking and verification exercises, ACAPS and Mercy Corps set up a Technical Reference Group (TRG) made up of different individuals and organisation representatives that are knowledgeable of and interested in remittance flows to Yemen. The TRG acted as a key sounding board as the research progressed and the findings were presented to the TRG. ACAPS also shared advanced copies of the report for peer review among different technical and academic experts as well as economists that work on Yemen.

ACRONYMS AND TERMINOLOGY

AML: Anti-money laundering.

CBY: Central Bank of Yemen. Central banks control the production and distribution of money and credit for a state or a group of states and are in most instances tasked with formulating monetary policy and regulating member banks.¹⁷⁸ The Yemen CBY has historically served four functions: the servicing of international debt, stabilisation of the rial against the US dollar, payment of public sector salaries, and guaranteeing food imports. In 2016, the headquarters of the CBY moved to Aden amid the civil war, when the Houthis took de facto control of Sana'a. Much of the staff and resources were left behind in the branch in Sana'a.

CCY: Cash Consortium of Yemen.

CFT: Combatting the financing of terrorism.

FX: Foreign exchange.

FSP: Financial service providers. Individuals, companies, and businesses providing financial services or advice to clients.

GCC: Gulf Cooperation Council.

Hawala: An ancient system for moving money common in Arab countries and South Asia. The system still exists outside the modern banking system. In Arabic, the verb 'hawala' means 'to transform, switch, change' and is often translated to the word 'transfer'. The system is an informal way of transferring money based on trust and verbal guarantees, normally undocumented and without any actual transaction. In Yemen, hawalas are legal and semiregulated.

IPC: Integrated Food Security Phase Classification.

IRG: Internationally Recognized Yemeni Government.

Money exchanger: An individual that conducts transactions at a currency exchange business. Normally, money/currency exchangers have the legal right to exchange one currency to another.

Remittance: Money transferred from one party to another as a payment or a gift. Normally, remittances refer to money sent by a migrant worker to an individual or a family in his/her home country.

SME: Small and medium-sized enterprise.

TRG: Technical Reference Group.

UAE: United Arab Emirates.

YKB: Yemen Kuwait Bank.

¹⁷⁸ "Central Bank," Investopedia, September 29, 2020

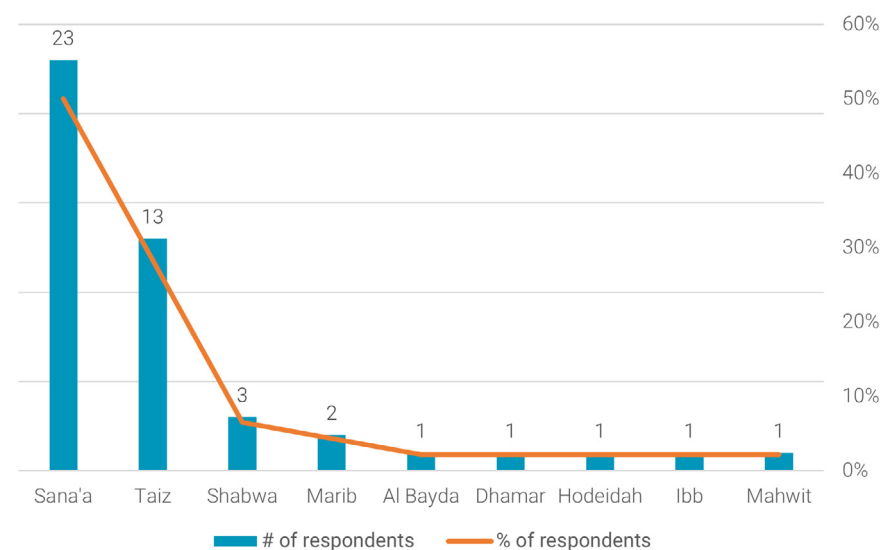
APPENDICES

Appendix I: Remittance survey for Yemeni migrant workers in Saudi Arabia

1. HOW OFTEN DO YOU SEND MONEY BACK TO YEMEN?	# OF RESPONDENTS	% OF RESPONDENTS
Once a month	38	83%
Once every six months	4	9%
In one year, less than SAR 1,000	1	2%
Once a week	1	2%
Once to twice a month	1	2%
Sometimes the family is with me	1	2%

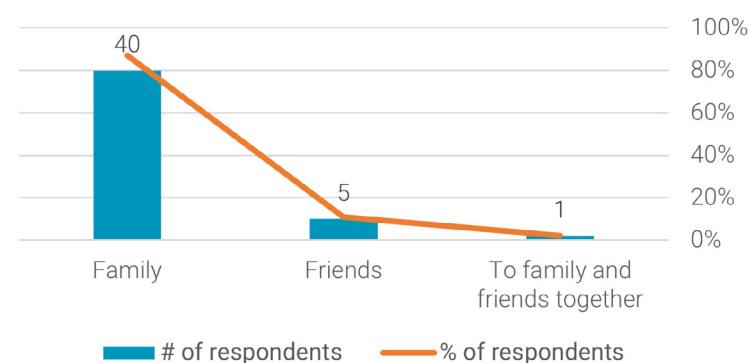
2. TO WHICH GOVERNORATE IN YEMEN DO YOU SEND MONEY?	# OF RESPONDENTS	% OF RESPONDENTS
Sana'a	23	50%
Taiz	13	28%
Shabwa	3	7%
Marib	2	4%
Al Bayda	1	2%
Dhamar	1	2%
Hodeidah	1	2%
Ibb	1	2%
Mahwit	1	2%

Figure 6: 2. To which governorate in Yemen do you send money?



3. TO WHOM DO YOU USUALLY TRANSFER MONEY?	# OF RESPONDENTS	% OF RESPONDENTS
Family	40	87%
Friends	5	11%
Family and friends together	1	2%

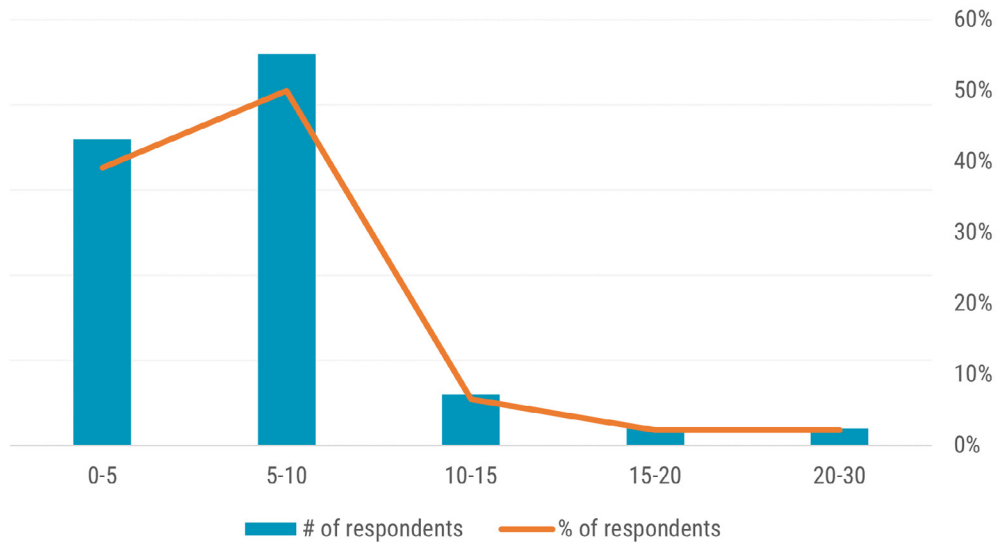
Figure 7: 3. To whom do you usually transfer money





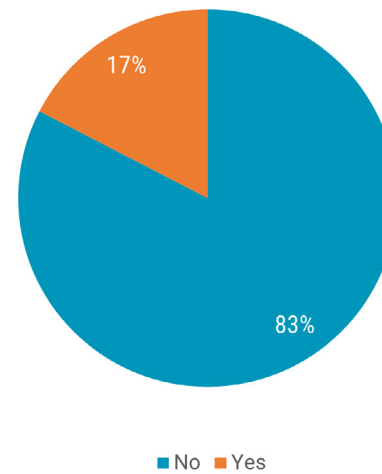
4. HOW MANY PEOPLE BENEFIT FROM YOUR REMITTANCES?	# OF RESPONDENTS	% OF RESPONDENTS
5-10	23	50%
0-5	18	39%
10-15	3	7%
15-20	1	2%
20-30	1	2%

Figure 8: 4. How many people benefit from your remittances?



5. DO THE RECIPIENTS OF YOUR REMITTANCES HAVE ANY OTHER MEANS OF INCOME ON A REGULAR BASIS?	# OF RESPONDENTS	% OF RESPONDENTS
No	38	83%
Yes	8	17%

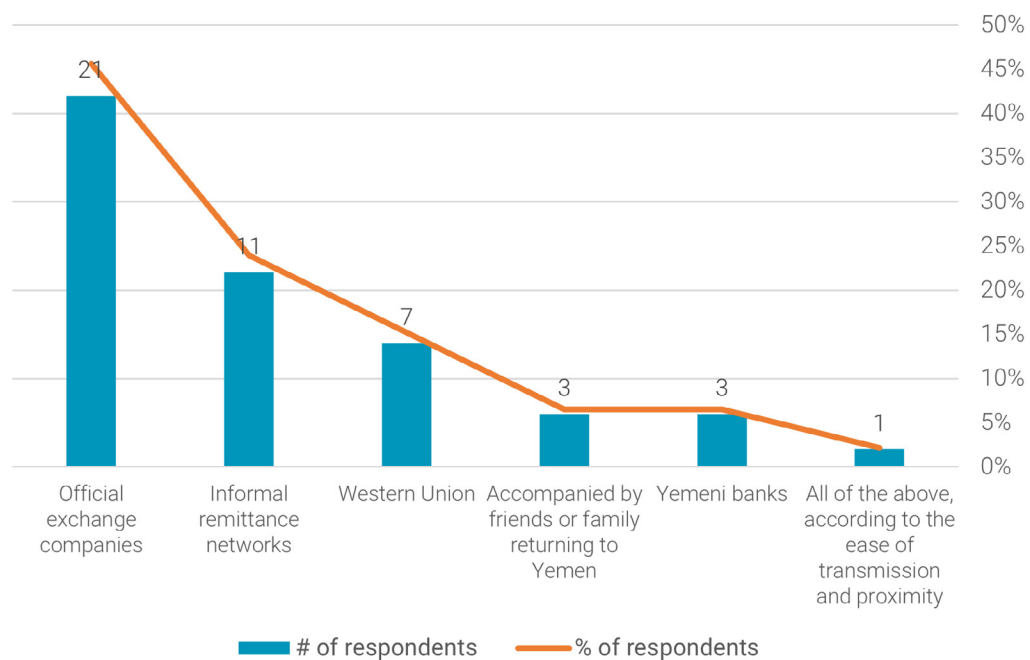
Figure 9: 5. Do the recipients of your remittances have any other means of income on a regular basis?





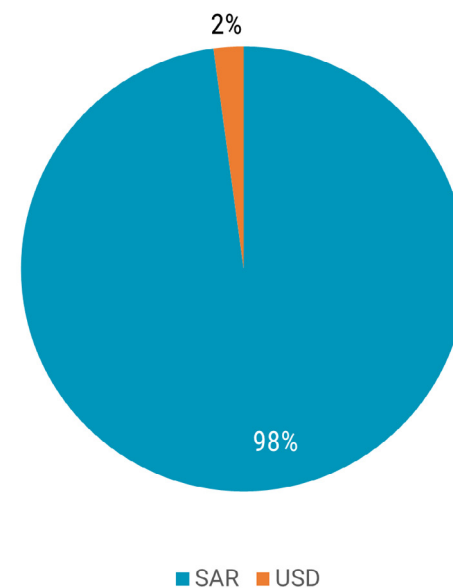
6. WHAT IS THE METHOD YOU USUALLY USE TO SEND MONEY?	# OF RESPONDENTS	% OF RESPONDENTS
Official exchange companies	21	46%
Informal remittance networks	11	24%
Western Union	7	15%
Accompanied by friends or family returning to Yemen	3	7%
Yemeni banks	3	7%
All of the above, according to the ease of transmission and proximity	1	2%

Figure 10: 6. What is the method you usually use to send money?



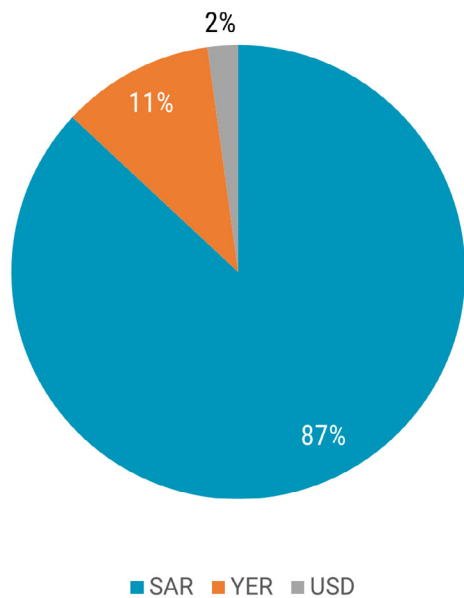
7. IN WHAT CURRENCY ARE YOU SENDING MONEY?	# OF RESPONDENTS	% OF RESPONDENTS
SAR	45	98%
USD	1	2%

Figure 11: 7. In what currency are you sending money?



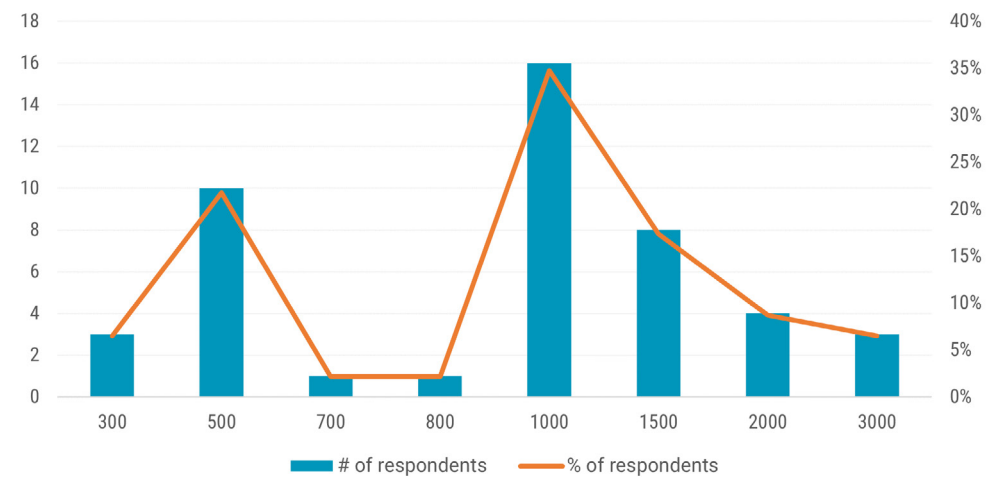
8. IN WHAT CURRENCY DO THE PEOPLE YOU SEND MONEY TO RECEIVE YOUR TRANSFER?	# OF RESPONDENTS	% OF RESPONDENTS
SAR	40	87%
YER	5	11%
USD	1	2%

Figure 12: 8. In what currency do the people you send money receive your transfer?



9. WHAT IS THE AVERAGE AMOUNT THAT YOU NORMALLY SEND TO YEMEN OR ELSEWHERE (SAR)?	# OF RESPONDENTS	% OF RESPONDENTS
1,000	16	35%
500	10	22%
1,500	8	17%
2,000	4	9%
300	3	7%
3,000	3	7%
700	1	2%
800	1	2%

Figure 13: 9. What is the average amount that you normally send to Yemen or elsewhere (SAR)?



10. HAVE YOU EVER SENT OTHER TYPES OF GOODS INSTEAD OF MONEY TO YEMEN?	# OF RESPONDENTS	% OF RESPONDENTS
Yes	35	76%
No	11	24%

Figure 14: 10. Have you ever sent other types of goods instead of money to Yemen

