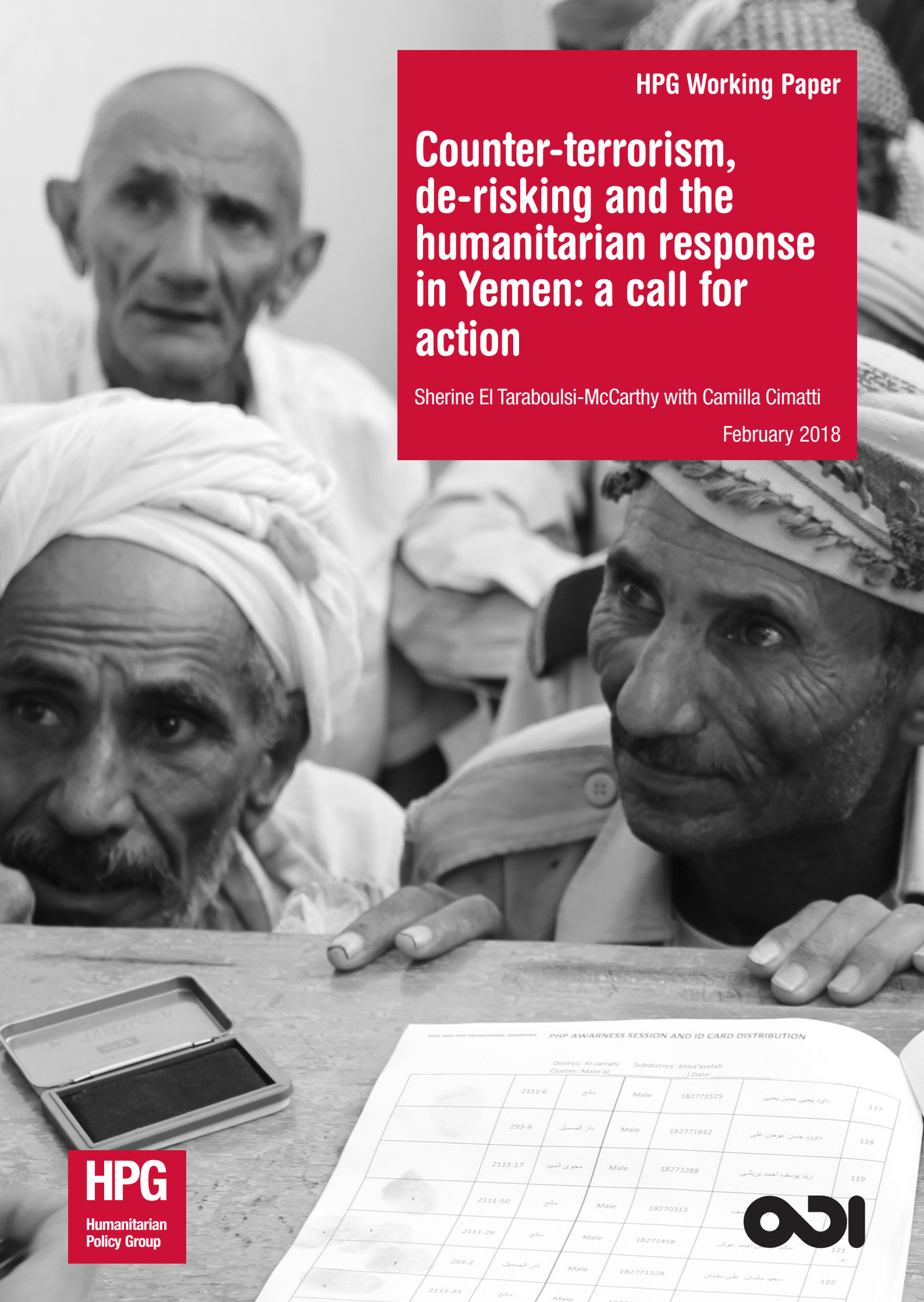


HPG Working Paper

Counter-terrorism, de-risking and the humanitarian response in Yemen: a call for action

Sherine El Taraboulsi-McCarthy with Camilla Cimatti

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Executive summary

De-risking refers to the removal of bank accounts of customers or the withholding of services from clients or regions associated with a high risk of funding terrorism, money laundering or other forms of financial crime. Individual Yemenis, Yemeni non-profit organisations and businesses have been adversely affected by bank de-risking regulations, both those residing in the West and in Yemen. This study explores the nature and impact of de-risking on humanitarian organisations in Yemen, and the degree of financial access humanitarian organisations enjoy. What are the implications of de-risking for humanitarian response? How are humanitarian organisations adapting, and what alternative routes for transferring funds are they resorting to? More importantly, the study presents a four-point proposal for a way forward.

In the context of one of the world's largest humanitarian crises, the study highlights the urgent need to address the adverse effects of de-risking on the humanitarian and business communities in Yemen. De-risking, as this study demonstrates, has not only targeted individuals in Yemen, but has also prevented Yemeni NGOs from receiving much-needed funds for humanitarian assistance, especially following the outbreak of the war in March 2015. De-risking is also starving Yemeni businesses of access to letters of credit and, in turn, reducing their capacity to trade – and even survive. The financial and economic crisis in the country has been exacerbated by the politicisation of the Central Bank of Yemen (CBY) and its relocation from Sanaa to Aden.

Overall, the study finds that de-risking has provided incentives for Yemeni banks to professionalise, but has also put a financial and administrative burden on the sector. Local humanitarian organisations are struggling to access much-needed funds, and de-risking is contributing to the war economy and corruption in Yemen. It is also harming Yemeni businesses as well as humanitarian organisations, with serious implications

for the post-conflict reconstruction process and economic rehabilitation. In the context of de-risking, there is a tension between counter-terrorism measures and humanitarian principles, particularly the principles of neutrality and humanity.

Based on these findings, the study sets out four proposals designed to address local and international blockages to the humanitarian response in Yemen, as well as identifying pathways towards economic reconstruction.

- **Point One:** To international humanitarian actors. Establish a comprehensive approach to the Yemen crisis that includes humanitarian, development and security considerations together, not in silos. Facilitating the flow of funds via a more proportionate de-risking policy will be integral to this approach.
- **Point Two:** To the Saudi-led coalition and the Houthis. Lifting the economic blockade is a humanitarian priority, and the Saudi-led coalition is responsible for doing this. Lifting the blockade will provide an opportunity for the economic stabilisation of Yemen. The Houthis must abide by International Humanitarian Law and ensure humanitarian access.
- **Point Three:** To the international community and political leaders in the West and the Middle East. A political community of the willing and the humanitarian community should put pressure on Saudi Arabia and the government of Yemen to revitalise the Central Bank so that Yemenis can access funds, businesses can get letters of credit and salaries are paid.
- **Point Four:** To European and American policy-makers and international bankers. Revisit de-risking policies in crisis contexts and allow for dialogue with local banks to evaluate needs and procedures to ensure that proportionate levels of de-risking are in place.

1 Introduction

Over recent years, a growing fear of terrorism and a desire to combat financial crime have seen some banks close the accounts of customers or withhold services from people or regions that they associate with high risks related to funding terrorism, money laundering or other forms of financial crime. These measures are known as ‘de-risking’ or ‘de-banking’. Yemen is one such country, and individual Yemenis, Yemeni non-profit organisations and businesses have been adversely affected by these regulations, both in the West (i.e. in the diaspora) and in Yemen.

A number of bank de-risking cases have made headlines in the last few years. One notable example involves the US labelling of the Yemeni politician Abdulwahab al-Humayqani as a ‘specially designated global terrorist’ because of allegations that he used his prominent status to fundraise through his affiliated charities, and then transferred the proceeds to Al-Qaeda in the Arabian Peninsula (AQAP). These allegations were denied by al-Humayqani and many other Yemenis, including Abd Rabbu Mansour Hadi, the country’s current president (Baron, 2014).

Another case concerns Deutsche Bank and Commerzbank, which in February 2017 closed the bank accounts of almost 100 Yemeni students, businesspeople and diplomats in Germany with no reason or explanation. It later became clear that this wave of cancellations is targeting not just individuals, but that transactions with Yemeni banks had been blocked as well (DW, 2017).

The politicisation of the functions of the Central Bank of Yemen (CBY), and its physical relocation from Sanaa to Aden, have compounded the effects of de-risking by robbing the country of a single national entity with the public buy-in and legitimacy to represent the banking sector internationally and with international, particularly US and European, banks. This has further weakened Yemen’s banking sector in the eyes of the regional and international financial system, and contributed to its marginalisation and financial exclusion.

De-risking has also had serious implications for the humanitarian sector in Yemen. The conflict that

began in 2015 has given rise to a grave humanitarian crisis: in addition to an estimated 10,000 conflict-related casualties, 17 million Yemenis (60% of the population) are food insecure, 7m of them severely. An ongoing cholera epidemic has affected half a million Yemenis. For organisations seeking to respond to the crisis, de-risking has delayed or blocked the transfer of funds, while restrictions on legitimate transactions have contributed to the creation of a black market trade in food and fuel and the expansion of other transfer routes that rely on networks of unregulated and potentially corrupt money brokers. While not necessarily indicative of corruption, humanitarian assistance, in the circumstances prevailing in Yemen, has almost inevitably found its way onto the black market.

This study explores the nature and impact of de-risking on humanitarian organisations in Yemen, and the degree of financial access humanitarian and development organisations have. What are the implications of de-risking for humanitarian response? How are humanitarian organisations adapting, and what alternative routes are they resorting to in order to transfer funds? Following an overview of the global counter-terror finance regime, the paper then sets out the key features of the humanitarian emergency following the start of the war in 2015 and the main lines of the humanitarian response. The study then turns to the financial and economic crisis and the role of the Central Bank, before setting out some of the implications of de-risking for the humanitarian response.

The paper concludes with a four-point proposal and call for action addressed to the international humanitarian sector, the Saudi-led coalition, the international community and the international financial sector. De-risking places Yemen’s frail economy at peril, and more needs to be done to ensure that the country can be resuscitated once the war finally ends. Among other things, this will require a cross-sectoral discussion between humanitarian and development organisations on how de-risking can avoid causing more harm to Yemen’s already weak and struggling economy.

Findings are based on a review of the literature on counter-terrorism and de-risking in conflict zones and 15 interviews and one focus group discussion with Yemeni bankers, activists and civil society leaders. Aside from those already in the public domain, no firm, individual or business is named in the study. It is worth noting here some of the challenges involved in developing this study. While confidentiality of data was guaranteed to all respondents, many (though not all), particularly those representing NGOs, were reluctant to share information about how de-risking has affected their organisations. Interviews with bankers and diplomats highlighted the urgent need to revisit the counter-terrorism regime and its impact on the banking sector and NGOs in Yemen,

especially where the survival of the Yemeni private sector is concerned. The reluctance of some NGO representatives to discuss de-risking (and this was verified in other interviews with NGO leaders and bankers) could be the result of a fear on the part of NGOs that they may be incorrectly suspected of financial crime or supporting terrorist activities. Bank de-risking carries a stigma for the organisations and individuals concerned. Efforts were made to verify information via different sources to avoid bias either for or against de-risking in Yemen. Another challenge was the limited availability of quantitative data on the banking sector in Yemen, and a lack of clarity on the degree to which informal banking has expanded in the country.

2 The global counter-terror finance regime and implications in the Middle East

Over recent years, and especially since the attacks in New York and Washington in 2001, governments around the world have adopted ‘ever-more restrictive’ security strategies to safeguard their citizens against terrorism (Keatinge, 2014: 15).¹ Banks have become part of this regime; as Keatinge explains: ‘Banks enforce government-imposed sanctions and anti-corruption regimes against countries such as Iran, Syria and Russia, and they played an integral role in the recent revolution in Libya by freezing the assets of Libya’s Muammar Gaddafi in 2011. Banks are also required to play a frontline role in tackling the panoply of illicit finance, in particular money laundering and terrorist financing’ (Keatinge, 2014: 15).

De-risking is one element in this counter-terrorism regime. De-risking can cover a range of actions and measures, including withdrawing or terminating correspondent banking relationships (IMF, 2016) in response to heightened regulatory compliance expectations and increased enforcement actions and penalties.² Compliance expectations relate to Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) controls, economic and trade sanctions, transparency and exchange of tax information. The US Foreign Account Tax Compliance Act (FATCA), for example, requires US nationals, including individuals living outside the United States, to report their financial accounts held outside of the United States, and requires foreign financial

institutions to report to the Internal Revenue Service about their US clients.

While de-risking has excluded particular individuals and organisations from the financial system, there are concerns that banks could be cutting ties not just on a case-by-case basis but wholesale, resulting in withdrawal from entire categories of customers, business lines or regions (IMF and UAB, 2015). As Keatinge puts it, these measures ‘can impact the innocent and the guilty in equal measure. While the latter often adapt, the former have to learn to live with the extra checks, delays in transaction execution, and general frustration of increased bureaucracy’ (Keatinge, 2014: 15). There are also considerations for banks themselves, in terms of the costs involved in due diligence and clearing a high-risk counter-party, which means that the fees earned from the relationship have to be sufficiently high to make it worthwhile (Caplen, 2017). How banks understand ‘risk’, and how decisions to close bank accounts are made, remain largely unclear.

The core of the global counter-terror finance regime and the regulatory framework for banking is the Financial Action Task Force (FATF), a global intergovernmental body set up in 1989 to tackle money laundering by the Latin American narcotics industry. Its mandate is to set standards and promote effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system. In collaboration with other international bodies, the FATF also works to identify national vulnerabilities, with a view to protecting the international financial system from misuse (FATF, 2012: 6). The FATF regularly peer reviews countries and their banking systems for compliance with its Recommendations, and governments are expected to have translated the Recommendations into national law. Although it has

1 In 2015, almost 100 countries suffered terrorist attacks, up from 59 in 2013, according to the University of Maryland’s Global Terrorism Database, which the Institute for Economics and Peace relies on for its analysis (Friedman, 2016).

2 Correspondent banking is an arrangement whereby one bank (the correspondent) provides services to another (the respondent), often as a means of gaining access to overseas products and enabling cross-border transactions. As such, correspondent banking services are an important part of the global payments landscape (SWIFT, 2016: 5).

no enforcement powers, failure to comply can lead to censure, with damaging consequences for a country's financial sector as the perceived risk of dealing with a country deemed to have poor controls results at best in greater costs, and at worst in the exclusion of the country concerned from the global financial market (Metcalf-Hough, 2015: 14). In their efforts to address risk within the financial system, both public and private actors often go beyond the FATF Recommendations, and have implemented regimes 'with a lower risk tolerance than that intended by the risk-based approach' (De Oliviera et al., 2016: 7). The result is 'an overall defensive approach to risk, which has consequences for how these actors deal with less mainstream businesses and clients' (*ibid.*: 7).

Bank de-risking has serious consequences for financial access and trade, especially for countries that rely heavily on imports. In the Middle East and North Africa, countries facing political crises are known to have suffered de-risking, while banks in more stable countries have themselves acted as a conduit for de-risking in the region. In Kuwait, for instance, several domestic banks have preemptively severed links with some charities and foreign exchange houses to avoid perceptions of risk that could prompt global banks to cut relations with them (IMF, 2017).

The non-profit sector, including humanitarian organisations operating in conflict zones, has been particularly targeted – and particularly harmed – by de-risking measures. A number of international banks, including HSBC, UBS and NatWest, have closed accounts or blocked or delayed funds to or transfers from accounts held by UK-registered charities and international non-profit organisations (Metcalf-Hough, 2015). Several British INGOs have seen their operations brought to a halt, and some have either lost

funds or had to return funds to the donor because they could not execute any transactions. In 2012, Islamic Relief Worldwide (IRW) discovered that donations that account holders at UBS had tried to send to the charity had been blocked (Young, 2012), and in 2014 the Ummah Welfare Trust, which has operations in the Gaza Strip, was notified by HSBC that its account was to be closed (Hooper, 2014). Another INGO 'estimated that it had forgone £2 million in donations in the preceding 12 months as a result of funds being blocked, and had had to return funds to a donor because it was unable to get them through to their intended destination overseas' (Metcalf-Hough, 2015: 7).

Muslim charities operating in conflict zones have been particularly affected by de-risking regulations. According to a member survey of the Muslim Charities Forum, a coordinating body that represents the largest Muslim non-profit organisations in the UK, 37% experienced difficulties in opening a bank account, with the greatest problems related to aid operations in areas facing conflict and violent extremism, including Somalia, Sudan and Iraq. According to Abdulrahman Sharif, former executive director at the Muslim Charities Forum: 'If you are a person with good will and you decide you want to set up a charity in Somalia or Yemen or Syria, opening a bank account for that is really near to impossible' (Dyke, 2014). As a result, he says, many organisations have stopped working in parts of the Middle East. In the majority of cases, banks provide no detailed explanation to customers, and those affected by de-risking have no clear legal recourse. Where a 'suspicious' transaction report is made, British courts will not ask the bank's Money-Laundering Reporting Officer (MLRO) for proof (A&L Goodbody, 2012). The burden of proof and the expenses of any lawsuit are borne by the affected individual and/or organisation.

3 Yemen post-2015: a complex humanitarian emergency

The war in Yemen is now entering its third year, with political, social and economic implications that are likely to last long after a political settlement is reached. The conflict broke out in March 2015 as a result of a power struggle between the internationally recognised government of President Abd Rabbu Mansour Hadi and an insurgency by members of the Yemeni military loyal to former President Ali Abdullah Saleh, and allied with Zaydi Shia Houthi militias. In March 2015, King Salman of Saudi Arabia ordered airstrikes on the Houthis and their allies in Yemen. The operation, called ‘Decisive Storm’, was supported by a coalition of Sunni Muslim countries including the Gulf Cooperation Council (GCC) states (except Oman), Morocco, Sudan, Egypt, Jordan and Pakistan. The United States provided logistics and intelligence, as well as information about potential targets (Reuters, 2015). The UK has expressed its support for the Saudi-led campaign ‘in every practical way short of engaging in combat’, as Philip Hammond, then UK Foreign Secretary, put it in 2015 (El Taraboulsi, 2015). Saudi Arabia’s stated goal is to end the Houthi revolt, which the Saudis claim is backed by Iran, and to restore ‘the legitimate government of Yemen’ (Clausen, 2015; Stenslie, 2016).

The war, which has dragged on for far longer than the Saudis expected, has triggered the world’s largest humanitarian crisis (OCHA, 2017). In addition to an estimated 10,000 casualties (ICG, 2016), the Office of the High Commissioner for Human Rights (OHCHR), Human Rights Watch (HRW) and, HRW and Amnesty International have recorded widespread violations of International Humanitarian Law (IHL) and human rights law. All sides have carried out indiscriminate, disproportionate or directly targeted attacks against civilians and civilian sites, such as educational, medical, religious and cultural facilities. Other breaches include the use of landmines and the recruitment of child soldiers by the Houthi-Saleh side, and the use of cluster bombs by the Saudi-led coalition. The conflict has also seen arbitrary detentions, killings, enforced evictions and disappearances in rebel-held areas. Freedom of

expression and association is banned. Gender-based violence and an overall worsening situation for women and girls have also been reported.

The purposeful denial of humanitarian access by both the Saudi coalition, through a blockade imposed as part of Decisive Storm, and by the Houthi-Saleh alliance, through sieges and checkpoints (HRW, 2017), is a further cause for concern: ‘Parties to the conflict do not always provide the necessary enabling environment for aid operations and pursue policies that promote the collapse of the economy and social services’ (OCHA, 2017c: 2).³ The war economy generated by the conflict is a further impediment to the delivery of humanitarian assistance as militias have an interest in capturing and reselling aid on the black market at inflated prices (HRW, 2016; Amnesty International, 2017).

The coalition blockade has compounded pre-existing food insecurity. Yemen is a resource-scarce country that depends heavily on imports for food and fuel. According to Oxfam, 90% of staple food items, such as wheat and rice, are imported. Even before the current conflict, more than ten million Yemenis faced hunger every day (Oxfam, 2017; FAO, 2017). As early in the conflict as August 2015, WFP warned that Yemen was ‘one step away’ from famine (WFP, 2015). According to the World Food Programme (WFP), 17 million Yemenis (or 60% of the population) are food insecure, 6.8m severely so (WFP, 2017). The 2017 Yemen Humanitarian Response Plan shows that about 3.3m children and pregnant or nursing women are acutely malnourished, including 462,000 children under five suffering from severe acute malnutrition. According to WFP, this represents a 57% increase since late 2015 (WFP, 2017).

An ongoing cholera epidemic has also taken a heavy toll (OCHA, 2017a). As of August 2017, over half

³ While Saudi Arabia agreed on 22 November 2017 to lift the blockade on the port of Hodeida, at the time of writing aid agencies reported that no permissions for humanitarian shipments had been given (Wintour, 2017).

a million Yemenis had been affected and more than 2,000 killed (WHO, 2017a). The outbreak and its unprecedented spread are direct consequences of the war, which has brought about both the collapse of the Yemeni healthcare system and deteriorating water quality (WHO, 2017b). International aid agencies have said that the shipment and distribution of cholera kits has been delayed or halted altogether due to the Saudi blockade and insecurity (OHCHR, 2016; Amnesty International, 2016).

Another aspect of the humanitarian crisis is the displacement of the Yemeni population, both within Yemen and across the country's borders. Rates of internal displacement are high, at around 2m IDPs as of August 2017, and according to the UN High Commissioner for Refugees (UNHCR) as of September 2017 over 170,000 people had fled the country since the start of the conflict (UNHCR, 2017). Major destinations include Oman (29%), Djibouti (19%), Somalia (18%), Ethiopia (7%) and Sudan (4%) (World Bank, 2016).

The emergency response is managed both within the OCHA-led Yemen Humanitarian Response Plan (YHRP), funded primarily by the United States, the United Kingdom and Germany, for a total of about \$900 million, and as a regional initiative worth \$400m, led by Saudi Arabia and the United Arab Emirates (OCHA, 2017e).⁴ The humanitarian presence in Yemen comprises an array of UN, international, national and private sector actors. As of July 2017, eight UN agencies – FAO, IOM, OHCHR, UNICEF, UNFPA, UNHCR, WFP and WHO – were coordinating and

implementing the humanitarian response across all nine sectoral clusters. These agencies have partnered with 86 national and 36 international organisations, working mainly in the food and agriculture, nutrition, health and protection clusters (OCHA, 2017d).

The Organisation of Islamic Cooperation (OIC), financed principally by Saudi Arabia and Kuwait, has adopted a strongly pro-Hadi stance and, despite its proclaimed mediating role, openly supports Operation Decisive Storm (Qadir and Rehman, 2015). Since 2015, it has taken the lead in organising pledges and conferences among its 57 members (*ibid.*). Little is known about the outcome of the pledging conference organised by the OIC in early 2017 to finance the humanitarian response, and in 2015 and 2016 none of the 33 projects funded by the Islamic Solidarity Fund for Development (ISFD), an entity established in 2005 by the OIC within the Islamic Development Bank (IDB), had channelled development assistance to Yemen (ISFD, 2015; 2016). Other funds, including Islamic Corporation for the Development of the Private Sector (ICD), a member of the IDB Group, have also stopped funding projects in Yemen. Between 2015 and 2017, the King Salman Relief and Humanitarian Centre (KSRelief) funded and coordinated more than 150 projects with 62 international and regional agencies, at a total of cost of over \$600,000 (KSRelief, 2017; El Taraboulsi, 2017). At local level, the Yemeni private sector has played a key role in responding to the crisis. Local businesses have partnered with KSRelief and other humanitarian organisations to facilitate projects by transporting and providing goods and energy supplies, and disbursing funds. An Islamic microfinance bank has also allowed Yemenis across the country to access their salaries and savings, though this has been put at risk by the unravelling of the country's banking sector.

4 As of August 2017, the YHRP had secured 39% of its operational budget (OCHA, 2017e).

4 The financial and economic crisis and the role of the Central Bank

The humanitarian crisis in Yemen is being exacerbated by a financial and economic crisis. The politicisation of the role of the Central Bank of Yemen (CBY), the economic blockade imposed by the Saudi-led coalition and de-risking by international and regional banks has rendered Yemenis unable to purchase what food and other goods do make it into the country. The fighting has destroyed the Yemeni economy and left families destitute. The Central Bank, now in Aden after its relocation from Houthi-held Sanaa, is unable to pay public sector salaries in rebel-controlled areas in the north, while the Houthi-Saleh authorities ‘accuse the government of trying to starve the north and refuse to recognise or share accounts with Aden. As the two sides bicker, Yemenis across the country are slowly starving’ (ICG, 2017).

Human Rights Watch (2016) has recorded several deliberate attacks led by Saudi Arabia against economic structures, including farms, factories, chambers of commerce, markets, warehouses and power plants in non-government areas, while the blockade has had dire repercussions in a country almost entirely dependent on imports to meet its people’s needs. Yemen’s major ports are working at a fraction of their pre-war capacity, a situation that is expected to worsen further if a threatened Saudi-led offensive against Hodeida is carried through (ICG, 2017). Both the Houthi-Saleh insurgency and the government have besieged cities including Aden, Taiz and Sanaa, completely blocking the transit of goods for periods ranging from months to years (Salisbury, 2016; MSF, 2016).

Until September 2016, the Central Bank – the anchor of Yemen’s banking system – disbursed payments to the 1.2m public sector workers on the state payroll, effectively sustaining between 5m and 6m Yemenis, in both government- and rebel-held areas (Reuters, 2016). It also safeguarded the flow of

imports through guaranteeing letters of credit to local businesses. In the context of the conflict, the Bank played a critical role in ‘keeping the country from financial collapse and the population from running out of food’ (Reuters, 2016). The Central Bank also handled communications between Yemeni and international banks. Internationally, the CBY represented the last functioning state institution able to ‘fulfil ... Yemen’s foreign debt obligations and maintain ... the trust of international financial markets’ (Rageh et al., 2016).

Hadi’s decision in September 2016 to relocate the CBY from Houthi-held Sanaa to government-controlled Aden has undermined the Bank’s capacity to function, with catastrophic consequences both at the national and international level (ICG, 2017). One bank official interviewed for this study vividly described the impact of the CBY’s relocation: ‘When it was in Sanaa, the Central Bank addressed the needs of both regions [north and south], and we had a governor that was respected by all of us. Now we have a governor in Saudi! The staff in Aden have limited experience, they even closed the SWIFT which is necessary for overseas transactions ... Yesterday, we were supposed to meet the Governor in Aden but they cancelled last minute. There is no communication’.

The government argues that, by relocating the Bank, it has prevented the Houthi-Saleh bloc from using its funds for its war effort. However, while the Central Bank is internationally recognised as the legitimate financial authority, the politicisation of its work and the relocation of its headquarters to Aden have dramatically weakened the credibility and capacity of the last remaining financial institution able to liaise with larger international banks and financial bodies. This has had repercussions both in Yemen and abroad. Nationally, it has left smaller Yemeni banks with no senior representative to lobby on their behalf.

Smaller businesses in particular have lost access to credit (UNDP, 2015). With the breakdown of financial channels to and from Yemen (Salisbury, 2017), an estimated \$200–\$260m is stuck in frozen bank accounts, and individuals and organisations have been barred from accessing the global financial market.

The newly elected Central Bank governor, Mansar al-Kaiti, has complained of inheriting an institution without money: according to al-Kaiti, the Bank has ‘exhausted its foreign reserves and is no longer able to cover its commitments’; there is no local currency liquidity, the Bank has not paid interest on Yemen’s external debt since May 2017 and is no longer paying public sector salaries, which some ascribe to a fear that, if salaries are paid, this would support the Houthis in the north (IRIS, 2017: 11). Despite the support of Hadi’s Gulf allies, as well as the United States, the UK, the International Monetary Fund (IMF) and the World Bank, it has failed to resolve the country’s liquidity problem or alleviate its financial strangulation. The CBY has been printing currency to address the liquidity crisis in the country (a move blocked by the Hadi authorities when it was in Sanaa); at least 160 billion Yemeni riyals (approximately \$640m) have been delivered to Aden as part of a 400bn riyal (\$1.6bn) order from a printing company

in Russia. However, there is little transparency as to how the money has been disbursed.

The Central Bank in Sanaa (which is still in existence) has no access to the international financial system or legitimacy because it is not linked to the internationally recognised government in Aden. It also has no capacity to pay salaries or issue letters of credit. In this context, it is important to note that northern Yemen accounts for 80% of the country’s population and most of its businesses. In a further sign of the fragmentation of Yemen’s financial infrastructure, two other ‘Central Banks’, in Ma’areb and Hadramaut, have also emerged; while the Ma’areb bank is known to have more liquidity than the other three because of the oil and gas trade in the area, it does not serve either Sanaa or Aden, and the Hadramaut bank is quite small, with little capacity to access the international financial market or pay salaries. Each bank operates within its own territory, but does not have operations at the national level. As one bank official put it: ‘The government of Yemen needs to talk to us at the banks. The Treasury and the Central Bank need to step in and sort this problem out. We now have two central banks and it has become very complicated to get anything done. No party wants to take responsibility for their actions’.

5 De-risking and conflict in Yemen

Although bankers in Yemen trace de-risking to the period following the 9/11 attacks in the United States, it became a serious problem following the outbreak of the war in 2015. In an effort to improve compliance with new banking regulations in the US and Europe, during the period preceding the outbreak of the Arab uprisings in 2011 the Central Bank of Yemen as well as local banks adopted new governance and compliance models, and provided training for staff in compliance procedures. In 2010, the Central Bank invited FATF to Yemen to evaluate its banking procedures to ensure compliance with FATF regulations. The visit never took place because of the Arab uprisings and the deterioration in the security situation. In 2015, US banks blocked access for Yemeni banks to US financial markets, and European banks followed suit. According to a Yemeni official at a bank with branches across the country, ‘De-risking has affected businesses in Yemen where more than 90% of food is imported, and has been costly for our clients’. Because of the difficulties around receiving transactions from the UK (and Europe more generally) and the US, ‘all dollar clearing banks or corresponding banks, all of them have ended their transactions to our bank in Yemen’. While this has prompted him to open accounts in China, given Yemen’s dollarized economy this was a ‘temporary solution’ and was not sustainable over the long term.

Not all the implications of de-risking for the financial sector in Yemen have been negative. Yemeni bankers have been actively meeting and coordinating with regional and international counterparts. One bank arranged for its senior staff to meet bankers in Lebanon for briefings on how they coordinated their work during the war there in the 1980s.⁵ Banks have also updated their systems for compliance. ‘We educate and train our staff so that we can provide the service at the best level. We have also developed

business continuity plans and opened bank accounts in China and many European banks so that if American banks decide to cut us off, we have other options,’ said one Yemeni banker. Some local banks have facilitated transactions within Yemen to compensate to some extent for the difficulties de-risking has caused. One bank has developed an ‘E-Wallet’ program to facilitate purchases and transfers within Yemen.

5.1 De-risking and the humanitarian sector

De-risking has had serious implications for the humanitarian sector in Yemen. Across the board, transactions made from US or European banks to Yemen have been delayed or blocked altogether; according to one respondent: ‘Local transactions are possible with the World Bank and other UN organisations but not with other [local] organisations’. The head of finance at a humanitarian organisation with operations across the country told the study that de-risking had resulted in a preference for transactions with individuals rather than organisations – usually well-connected people with a public profile: ‘Businessmen and ministers get their transactions but not people in need, not organizations. We struggle’.

5.1.1 Delayed transactions

A study conducted by the Charity Finance Group (CFG) on the impact of de-risking on NGOs in a number of high-risk countries found that charities were experiencing delays in getting humanitarian aid into target countries because of de-risking, and as a result had closed down key partnerships or stopped or reduced programmes because of a lack of funds (CFG, 2015). While the study did not cover Yemen, the effects of de-risking have been similar. The head of finance at a humanitarian organisation in Sanaa, established in 2011 following the outbreak of the Arab uprisings, described how, in the case of one food assistance project, the first of three funding instalments

⁵ Lebanon, which also risked being cut off from global financial markets, has invested in compliance procedures in order to build trust between its banks and international institutions.

from a European bank to the organisation's local bank account in Yemen had been delayed for more than a month. The organisation started distributing the assistance anyway because it was already in storage via an agreement with the trader that he would eventually get his money when the funds were deposited in the organisation's account. The second transaction was also delayed, this time for about two months. 'We had deadlines and we honoured them, but we could not pay salaries,' he said.

Another head of finance for a humanitarian organisation set up in 2016 described a similar experience, with transactions from the UK for a food distribution project delayed for around two months. Given the urgency of the project, which was budgeted to cost \$30,000, project leaders gathered the necessary funds from individuals locally. The funds finally arrived about 20 days following the end of the project. When the bank was asked to explain the delay, 'they said they are unable to find a corresponding bank to process the transaction. They were told it was because of the war'. One organisation planning a food distribution project in north Yemen in 2017 also encountered delays of several months between the dispatch of the funds from the donor in March and their eventual release the following May. One consequence was that, when the cholera outbreak occurred, the organisation could not contribute to the humanitarian response.

5.1.2 The availability and feasibility of cash assistance

De-risking places restrictions on the ability to inject cash assistance into Yemen. While evidence suggests that cash transfer programming can and should be prioritised to support populations in humanitarian crises, its potential has not been fully realised. Cash programming allows beneficiaries to choose which needs should be satisfied first, and locally spent cash contributes to market recovery and helps re-establish livelihoods (IIED, 2016). One humanitarian aid worker in Yemen emphasised the need for more conditional and unconditional cash transfers, in part to protect the dignity of beneficiaries in a context where cultural and traditional values have been compromised because of the unravelling of Yemen's social fabric; prostitution is increasing and young people are resorting to extremist groups because they are receiving no education and have no access to work opportunities.

5.1.3 The war economy and corruption

De-risking, and the consequent restrictions on legitimate transactions, has contributed to the creation of a black market trade in food and fuel and the expansion of other transfer routes that rely on networks of unregulated and potentially corrupt money brokers. One participant at a focus group discussion on de-risking in Yemen described it as the 'door to corruption' as the absence of a functioning formal banking system has encouraged the growth of other money transfer routes that rely on networks of money brokers, such as *hawala*, that are unregulated and often perceived as corrupt. According to one Yemeni banker based in Sanaa, 'The *sarafeen* [money brokers] have more than doubled. They are the only source of local and external distribution of cash. We cannot survive without them'. Another told the study that the emergence of the black market and manual money transfers had created a parallel and opaque transaction system, and that barring 'normal' banking supported terrorism: 'There are illicit transactions taking place in the black market often because of the weakening of the banking system. However, our black market is small because our economy is small'. Humanitarian assistance can also find its way onto the black market, for instance to meet urgent needs for cash in the context of Yemen's liquidity crisis, or because the assistance provided may not meet people's needs, though this may not constitute corruption per se.

5.1.4 Local banking policies and the effects of inflation

De-risking has also put pressure on local banks, whose policies have also caused problems for aid organisations. NGO staff mentioned that, because of a bank policy that does not allow more than \$5,000 to be taken out of a Yemeni's account, it was difficult to obtain enough cash to purchase assistance from traders. 'It was difficult to convince them that this was a humanitarian need and that they should make an exception,' said one respondent. Another problem is the exchange rate: 'We take the money from the UN in dollars and we give money to beneficiaries in riyals. One dollar equals 250 Riyals but in the market 325 Riyals. The difference is 20% between what we received and what we are distributing. The Central Bank floated the Riyal which helped a bit but there is still a problem with liquidity'.

6 Conclusion

Overall, the study found that:

- **De-risking has encouraged Yemeni banks to professionalise.** Bankers in Yemen have described how they have invested in building the capacity of their staff in order to ensure that their operations meet international standards. Because of the Central Bank crisis, individual banks have reached out to international and regional counterparts in order to guarantee some form of access (although highly restricted) to the global financial system.
- **De-risking has put a financial and administrative burden on Yemeni banks.** With restrictions on transactions within Yemen as well as international transactions, banks have had to invest in finding other regional institutions in the Gulf or in Asia willing to allow them to open bank accounts. With the Central Bank's relocation from Sanaa to Aden, local Yemeni banks have had to rely on their own resources and communicate individually with international banks in an effort to maintain access to the international market.
- **Local humanitarian organisations are struggling, but community resilience seems to be expanding in the face of banking restrictions.** Local organisations and communities are finding ways to work around de-risking and to continue their humanitarian response against the odds by relying on locally sourced funds and resources from within the community, as well as thinking creatively about ways to ensure that humanitarian assistance reaches people in need. However, the extent of the humanitarian crisis in Yemen (exacerbated by the cholera outbreak) means that a community response is not sufficient, and Yemenis feel abandoned by the international community. Young people are particularly vulnerable, and extremist groups have taken advantage of their frustration.
- **De-risking is contributing to a war economy and corruption in Yemen.** Respondents have described how restrictions within the formal banking system have led to the expansion of other money transfer routes that are unregulated and potentially corrupt. Brokers working within this parallel system are thriving on the war and have no incentives to promote peace.
- **De-risking is harming Yemen's private sector in addition to humanitarian organisations in the country. This will have grave implications for Yemen's post-conflict reconstruction process and economic rehabilitation.** While large international humanitarian organisations have successfully made international transactions to Yemen, the private sector has largely been barred from transferring or receiving funds. Western banks had already cut credit lines for traders shipping food to Yemen, and are unwilling to offer letters of credit guaranteeing that sellers will be paid on time. The International Finance Corporation (IFC) is in the process of working on a project to act as a guarantor of select businesses in Yemen to international banks, but the project has yet to be implemented.
- **There is a tension between counter-terrorism measures on the one hand, and humanitarian principles, particularly the principle of neutrality and humanity, on the other.** While International Humanitarian Law (IHL) obliges parties to an armed conflict to undertake relief actions themselves or allow humanitarian organisations to do so, without discrimination on the basis of nationality, race, religion or other criteria, and that assistance and protection be given only in proportion to need, counter-terrorism measures designate certain armed actors as terrorist, and therefore criminalises any engagement with them. In Yemen, de-risking is starving the population of much-needed funds, both for humanitarian assistance and to keep businesses alive.

6.1 Towards a holistic approach: a four-point proposal

This four-point proposal is intended as a call for action, to be implemented in its totality and not as individual parts. The proposal is informed by an overall approach that links humanitarian engagement in response to the conflict, at national, regional and international level, to a long-term plan of economic stabilisation and reconstruction. It is a departure from piecemeal approaches that regard humanitarian

response as divorced from long-term considerations. The purpose of the proposal is to address local and international blockages to the humanitarian response in Yemen, as well as identifying pathways towards economic reconstruction. It is informed by the interviews conducted for this study, the wider literature and an expanding body of work on the impact of de-risking on local humanitarian organisations in conflict zones.

Point One: To international humanitarian actors

Establish a comprehensive approach to the Yemen crisis that includes humanitarian, development and security considerations together, not in silos. Facilitating the flow of funds via a more proportionate de-risking policy will be integral to this approach. The Yemen crisis shows that a comprehensive approach to humanitarian action, development and security is not a luxury but a necessity. Cash transfer programming could be a way to link the humanitarian response to a plan for post-conflict reconstruction and the revival of the Yemeni economy. This will require a shift in de-risking policy to facilitate the flow of funds to meet humanitarian and economic reconstruction needs. A reformed and strengthened Central Bank could act as guarantor to ensure that funds are used for legitimate ends.

Point Two: To the Saudi-led coalition and the Houthis

Lifting the economic blockade is a humanitarian priority, and the Saudi-led coalition is responsible for doing this. Lifting the blockade will provide an opportunity for the economic stabilisation of Yemen. The blockade, driven by fears of arms supplies to the Houthis from Iran, is starving Yemen of much-needed assistance and trade. Ensuring that Iran does not supply weapons to the Houthis should not result in an expanding humanitarian crisis, which has seen 7m people pushed to the brink of famine. UN agencies and the international community writ large should put more pressure on the Saudi-led coalition to lift the economic blockade and invest in alternative options to ensure that no arms smuggling is taking place. Investing in satellite technology is key to increasing the effectiveness

of surveillance at minimal cost (El Taraboulsi-McCarthy and Firebrace, 2017). Opportunities for arms smuggling need to be shut down and vital international shipping lanes protected from disruption. The Houthis must abide by International Humanitarian Law and ensure humanitarian access.

Point Three: To the international community and political leaders in the West and the Middle East

A political community of the willing and the humanitarian community should put pressure on Saudi Arabia and the government of Yemen to revitalise the Central Bank so that Yemenis can access funds, businesses can get letters of credit and salaries are paid.

A functioning Central Bank is essential to any efforts to stabilise Yemen's failing economy. The relocation of the Bank from Sanaa to Aden, without ensuring adequate human resources, service provision or cash reserves, has meant that salaries have not been paid to more than 1m civil servants, out of a total working population of 4.2m (IRIS, 2017: 12). The Bank can act as a guarantor for local banks and businesses, ensure that salaries are paid, traders have access to letters of credit and channels of communication remain open to the international financial system. The Central Bank can also stabilise the exchange rate and help ensure that the expanding black market and illicit money brokering practices are curtailed.

Point Four: To European and American policy-makers and international bankers

Revisit de-risking policies in crisis contexts and allow for dialogue with local banks to evaluate needs and procedures to ensure that proportionate levels of de-risking are in place.

De-risking is a threat to humanitarian responses and economic revival. One way forward could be to develop bespoke policies to ensure dialogue between international and local banks in an effort to facilitate the flow of funds. The IMF and the World Bank can play an intermediary role in situations like this by acting as a guarantor for local businesses and banks, to ensure that humanitarian assistance continues to be delivered.

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Cover photo: Yemeni families collecting cash distributions which will allow them to meet their basic needs. *Note that the original image has been modified to remove company logos.*

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