

HUMANITARIAN
AND DEVELOPMENT
PROGRAMME

Yemen Six Month Economic Analysis
Economic Warfare & the Humanitarian
Context

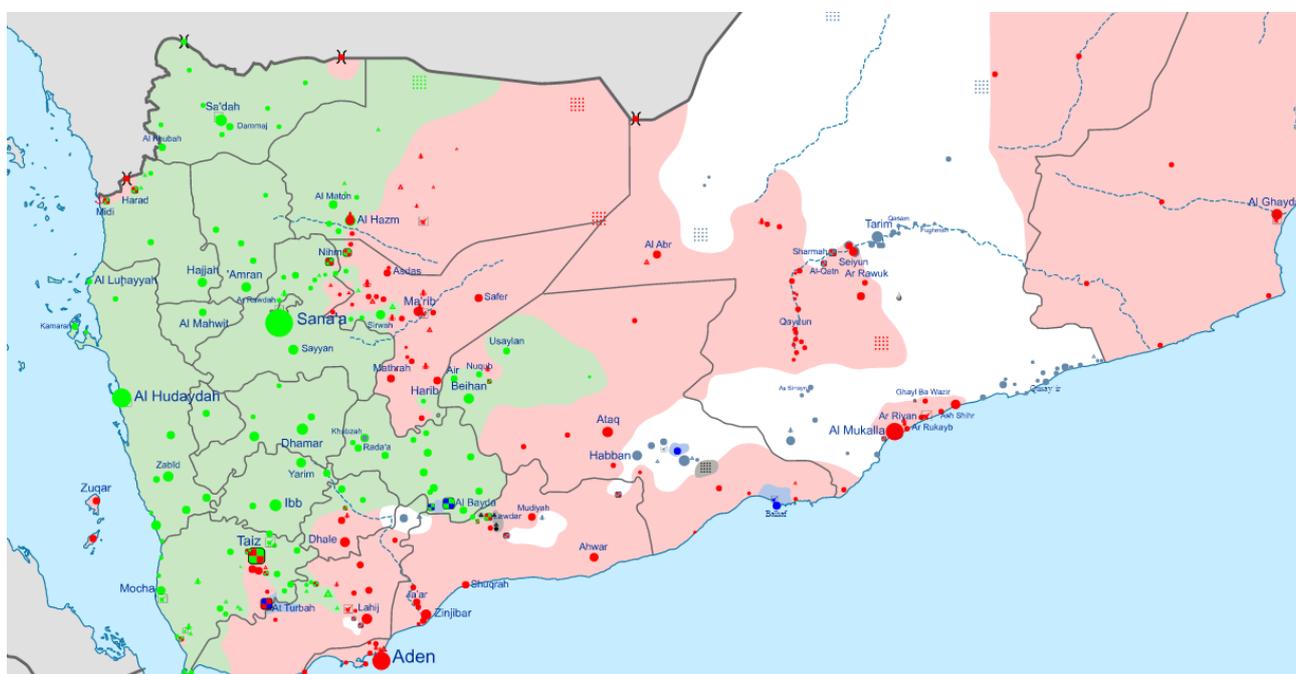
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HUMANITARIAN FORESIGHT THINK TANK



EXECUTIVE SUMMARY

An inclusive political solution to the conflict is unlikely in the next six months, despite the high possibility of state economic collapse and a metastasizing humanitarian crisis across the country. President Hadi's refusal to accept the terms of a recent UN peace plan is likely stalling Saudi financial relief and threatens to fracture his support base in the south. Meanwhile, the crippled state economy is supporting a thriving shadow economy, which will fragment power structures on both sides of the conflict as stakeholders engage in war profiteering. Not only will this diminish the chances for unity in the long run, it also increases food insecurity and poverty for the most vulnerable, while benefiting those in power who already dominate the parallel market. Amidst this turmoil, AQAP and IS influence will increase. This report will examine the economic context affecting humanitarian needs in Yemen, and present scenarios offering potential trajectories of the conflict to assist in humanitarian preparedness.



Source: Ali Zifan (6 December 2016), *Insurgency in Yemen detailed map*, Wikipedia

INTRODUCTION

The slow progress in the war between the internationally-recognized Yemeni government of Abd Rabbu Mansour Hadi and the Zaidi Shia Houthi-Ali Abdallah Saleh alliance has caused the Saudi-backed Hadi coalition to instrumentalise the Yemeni economy, conducting a war of attrition. As Sanaa's Central Bank of Yemen (CBY) hemorrhaged through its reserves in the previous two years of war, growing criticism of the governor's alleged complicity in Houthi embezzlement culminated in the 18 September decision by the Hadi government to move the CBY from the Houthi-controlled capital to Aden and position a new governor to run the institution. Imported commodities have

also been channeled towards the Aden port, stifling northern trade alongside infrastructural damage and the impact of the commercial blockade.

Since the Saudi intervention in March 2015, more than 10,000 people have died, 200,000 have been injured and 3,000,000 have been displaced in a campaign that can boast few victories¹. The conflict has taken a massive toll on ordinary Yemenis, with both sides accused of violating international humanitarian law. The Saudi-led coalition has imposed a de facto economic blockade on the import-dependent country, controlling access by land, air and sea to Houthi areas and carrying out a concerted campaign to economically impact citizens by bombing ports, warehouses and transport routes, hampering access to food, fuel and medicine. The country not only depends on its Gulf neighbours for border access and to sell oil. Saudi Arabia and other GCC members have provided crucial investments in the last decades to prop up the Central Bank of Yemen (CBY). Between 2012 and 2014 Saudi Arabia invested four billion dollars to prevent economic collapse.

As the Central Bank ran through its reserves servicing debt, guaranteeing imports and paying public sector wages, a Saudi bailout appeared certain—if not without conditions. Moving the bank to government-held Aden addressed these concerns, by excising Houthi access to the bank's accounts. Yet financial relief has not come, and the inability of the new branch to carry out the bank's primary functions is risking not only a liquidity and currency crisis, but aggravating the risk of famine in many parts of the country by destabilizing commercial and governmental structures that facilitate the trade of basic commodities, further detaching economic mechanisms from regulated structures towards an unruly and chaotic parallel economy run by Yemen's powerbrokers that provide goods to the highest bidder.

With the UN elevation of the Yemen crisis to a level 3 emergency in July and IPC levels of food insecurity reaching 'emergency' in more than half of the country's governorates, this was a remarkable move to take—even if the intention was to consolidate food access through the small port of Aden—as the largest impact of such destabilization would unequivocally be felt by the populated northern Houthi-held region, with debilitating cascading effects on the last remnants of a functioning commercial sector and even on the use of limited development aid².

Several factors determine the deepening of hunger in Yemen: vastly reduced food and fuel imports, the non-payment of public sector wages since July and the failure of the Aden bank to implement monetary policy to prevent a liquidity and devaluation crisis. Since the move, the black market and official rate for the Yemeni riyal continue to deviate, depleting household resources, worsening the ability to cope with food and fuel shortages and commensurate price shocks. In this context, WFP estimates that the depth of hunger in the Yemeni population could triple into 2017, leaving the population in need of twice the amount of food assistance as compared to May 2016³. Moreover, the mounting cholera crisis is putting pressure on Yemen's already

¹ Adel, Dina (30 August 2016), *United Nations: The number of dead in the Yemen war at least ten thousand*, Reuters

² For example, if the CBY does not meet its debt-servicing commitments, loans and funding are at risk including a USD 400m grant from the World Bank for emergency programming.

³ WFP VAM (November 2016), *Special Focus Yemen: What does the conflict-induced public sector crisis mean for food security in Yemen?*

overstretched and limited health facilities, bringing to light the compounding effect of communicable disease on hunger and malnutrition.

The 18 September decision is in and of itself not catastrophic. Indeed, it is the economic and fiscal conditions leading to this decision and the events that have followed that provide greater insight for scenarios that humanitarian actors can assess. This report will examine these pre-existing conditions to better comprehend the rationale for President Hadi's announcement of the bank move, the impact of the move in the two months following, and will put forth scenarios with associated humanitarian impacts to assist in the contingency planning and preparing humanitarian actors.

POLITICAL INTRACTABILITY WITH HIGH STAKES RESPONSES

The war between Houthi-Saleh-forces and Hadi government loyalists has failed to lead to political or military resolution. As time passes, the possibility of peace is further unravelling. President Hadi's refusal of a UN-brokered peace plan that would lead to his own ouster was followed by the establishment of a Houthi-backed National Salvation Government in late November that has made no effort to undertake the responsibilities of a parallel government, like salary provision. UN Special Envoy Ahmed Ould al Sheikh's peace deal outlines giving the Houthi rebels a share in the future government and reducing the president's powers in exchange for a withdrawal from major cities, invoking the UNSC resolution stipulating that rebels must lay down their weapons and withdraw from cities as a pre-condition. The deal also stipulated the naming of a vice president that current president Hadi would transfer power to, who would then appoint a PM to form a government including the north and south with equal representation.

Arab Gulf states position

Contrary to being a UN-led effort rejected by Hadi's external supporters, according to US Secretary of State John Kerry, Arab Gulf states agreed to a similar plan "unanimously" in August⁴ at least externally, the month before the announcement of the Aden bank move. A Saudi volte-face from their UK and US partners is a calculated risk predicated on the assumption that weapons deals and diplomatic backing for the war would not be compromised, and that a victory is still on the cards. Similarly, the failure to prop up the Aden Central Bank with staff and financing reveals a lack of interest in Aden, or Hadi, per se, and the focus on a military victory.

The war's chief architect Crown Prince Mohammad bin Salman entered the conflict with an immense show of force, assuming the ragtag Houthi rebels would be dramatically pushed back by the coalition's airpower. Nearly two years later, his failure to secure a victory in an expensive and unpopular war—compounded by serious economic and social issues in the kingdom— has impacted perceptions of the crown prince's ability to lead. In this context, a negotiated compromise would be a seeming loss. As a result, following the dissolution of Kuwait-led talks in August, the government intensified its campaign, continuing airstrikes throughout a November 48-hour ceasefire and foregoing the negotiations process. The UAE has attempted to sidestep this doomed project by assisting it ally in securing Aden and supporting some Salafi forces in the south, but is facing growing pressures from its neighbor to increase military participation against the

⁴ The National (29 October 2016), *Hadi rejects UN peace proposal for Yemen*

Houthis. This could potentially lead to an offensive on Hodeida city and Saada, with the knowledge of Saleh-led military factions, to carry out strategic victories that would allow the Saudis to return to the negotiating table with a better hand.

A Muted International Response

The dire humanitarian situation, high civilian toll and allegations of human rights violations committed on both sides have built some international pressure to end the war. With the population facing immense needs and the commensurate cost of a complex emergency intervention, as well as World Bank estimates of the cost of reconstruction⁵, reputational costs for UK and US governments exporting arms to an ally accused of war crimes⁶; and for the Yemeni people, who fall deeper into hunger and poverty, these factors seem to far outweigh any perceived victory. And yet Yemen has remained low on the agenda of international priorities. The muted international response serves not only to fuel the war, but also allows space for the disintegration of forces, particularly among those nominally loyal to the government-in-exile, the secessionist movement in the south, and various Salafi and Muslim Brotherhood-allied groups (Islah). The movement of the Central Bank to Aden and establishing of the Houthi National Salvation Government particularly encourage the separatist movement, who form the military leadership of Hadi's forces and are pushing for a partitioned state. Additionally, the focus of western allies on counterterrorism activities targeting Al Qaeda and IS and maritime security along the Mandab Strait also fail to recognise this destabilizing disaggregation of power as a factor that supports the spread of extremism. While it is unclear how the Trump presidency will impact Middle Eastern foreign policy at this time, Trump has spoken negatively about the kingdom of Saudi Arabia and could decrease diplomatic ties.

Iran's position and sectarian dynamics of the conflict

On the side of the Iran-backed GPC-Houthi alliance, Iran has benefitted from its visible position in Yemen as part of a Shia-Sunni proxy war that has extended across the Middle East. In October, US and Gulf officials alleged that the country is increasing weapons transfers to the Houthis via Oman⁷, though most of the Houthi's materiel existed before the conflict. Though the Ansarallah came to the fore as a populist, anti-corruption movement two decades ago, Iranian influence as a counterbalance to consistent Saudi domestic meddling has turned the current conflict into one with fierce sectarian overtones that will prove difficult to de-escalate on both sides if a solution is reached.

Though both sides deny wanting to partition the country, they are launching an unmistakable path for one through their game of political chicken. Nearly two years of war has dissolved state structures and created a dependence on local governing councils and powerbrokers controlling

⁵ The World Bank estimates costs will reach USD 15 billion. World Bank Middle East and North Africa Region(October 2016), *Economic and Social Inclusion to Prevent Violent Extremism*, MENA economic Monitor

⁶ On September 22, human rights groups issued a letter to the UN Human Rights Council urging the council to establish an independent international investigation into alleged war crimes committed by all sides. Saudi pressure prevented the investigation through a report issued in September 2015 put forth by the Netherlands in a draft resolution.

⁷ Bayoumy, Yara and Phil Stewart (20 October 2016), *Exclusive: Iran steps up weapons supply to Yemen's Houthis via Oman – officials*, Reuters

the black market trade of food and fuel. The ongoing strain of war is beginning to dismantle these councils into federalist tribal and ethnic fiefdoms, which will likely be the foundation of the state in years to come.

In addition to creating economic instability and potentially famine, the isolation of the Houthis and the majority of civilians living in Houthi-controlled territory from the central economy is leading the group to escalate militarily to push the Hadi coalition to negotiate. Tehran has been accused of supporting the Houthis to launch missiles at UAE and US-owned ships in the Mandab strait, and sending missiles deep into Saudi territory following the move of the Central Bank and encouraging the escalation of a proxy war that would elevate Iran's hardliners against Saudi and US stakeholders. While the conflict has been costly from the country, the nuclear deal has ended sanctions allowing Tehran to begin selling exports once again on the local market.

Houthi alliance pursue political legitimacy

Since the Hadi government began to detach the economy from the CBY this summer, the Houthi-GPC coalition has sought legitimacy through political structures, establishing an administration that further divides the two centers of power; while seeking out riskier military targets. When the government announced at the end of July that it had sold three million barrels of crude oil and would be the sole benefactor of the revenue, the Houthi-GPC alliance formed a political council, violating numerous UN Security council resolutions by reconvening parliament to ratify its formation, as well as appointing a new Prime Minister, former governor of Aden Abdulaziz bin Habtoor, at the beginning of October to form a national salvation government excluding Hadi's government. These moves are creating political realities that will shift the UN framework of negotiations.

PRE-CRISIS POOR ECONOMIC INDICATORS

Before the current crisis, Yemen was the poorest country in the Middle East, with the World Bank reporting more than half of Yemenis lived in poverty and 45% were food insecure⁸. Yemen's economy was burdened by structural challenges predating the current conflict that were exploited and exacerbated by the Houthi-Saleh expansion in north Yemen. Chief among them, and most egregious for the Hadi government, was a **bloated public sector** that ensured loyalty through the doling out of patronage—formidable under former President Ali Abdullah Saleh, criticized and expanded under President Hadi, and once more utilized by the Houthis when they took control of Sanaa.

⁸ Al-Muslimi, Farea and Mansour Rageh (October 2015), *Yemen's economic collapse and impending famine: the necessary immediate steps to avoid worst-case scenarios*, Sanaa Center for Strategic Studies

The payment of wages in 2012 accounted for the single largest government expenditure—37% of the budget—for primarily subsistence wages amounting to USD 5 billion⁹. From September 2014, the government estimated that several thousand pro-Houthi soldiers were added to the Defense Ministry payroll¹⁰, further benefiting forces already counting among them several military units loyal to the Saleh family. Fighters

joining the Saudi-led pro-Hadi coalition were not added to the state payroll and received salaries directly from Gulf benefactors, but delays in payment and low wages—particularly among Saudi-supported troops—are reportedly causing desertions on the battlefield¹¹.

Central Bank Functions

- Servicing of international debt
- Monetary policy to stabilize value of Yemeni riyal at the US dollar to prevent liquidity crisis, devaluation and inflation, which would destroy the savings of Yemeni families
- Payment of public sector salaries across the country
- Guaranteeing food imports

Other structural factors arguably had a bigger role to play in this economic reality. Yemen is a **minor oil economy** that received 70% of its GDP from exports pre-crisis¹². Disruptions in the form of air bombardments, conflict, falling investor confidence and increasing risk margins halted oil exports early in the war, denying the Central Bank of Yemen a key source of foreign currency and revenue. Failing to diversify into other sectors has left the economy prone to shocks, particularly in the wake of low oil prices following the global financial crisis. The energy sector has also been targeted by Al Qaeda in the Arabian Peninsula. Any attack on oil pipelines, like in 2011, causes the government to use its reserves to cover domestic demand.

Yemen imports 90% of its food, medicine and fuel needs. Commercial traders have depended on the Central Bank of Yemen to guarantee shipments for the country's imports, yet with the precipitous fall in federal reserves and the inability to provide credit guarantees or guarantee the riyal, as well as the bombing of the northern port of Hodeidah as part of a larger Saudi blockade facilitated by UNSC 2216, food imports have halved and will likely continue to fall. Hodeidah handled 70% of the country's imports pre-crisis. Even with the UN establishment of the UNVIM verification method, damage to cranes, warehouses and other key infrastructure has led to an average 26 day unloading time. Similar challenges have been observed at the northern Saleef port, which handles 70% of the country's wheat imports¹³. Other modes of transport are equally restricted, and transport costs within Yemen have rapidly risen due to fuel shortages and airstrikes—leading to higher prices for consumers. A lack of ground access via Saudi Arabia, UAE and Oman has also contributed to decreased food imports and higher rates of insecurity.

⁹ Al-Absi, Mohamed (January 2014), *Detailed study on the 'catastrophe' of the general state budget for the year 2014*, Mohamed al-Absi blog

¹⁰ Al-Masmari, Hakim (16 November 2014), *Why Houthis hold the power in Yemen*, The National

¹¹ The New York Times reported that Saudi supported troops receive one-third that of UAE supported ones. Al-Batati, Saeed and Nour Youssef (12 September 2016), *It's not the bullets forcing Yemeni troops off the battlefield. It's the pay*, New York Times

¹² 70% of Yemen's national budget was dependent on oil revenues pre-crisis. Al-Muslimi, Farea and Mansour Rageh (October 2015), *Yemen's economic collapse and impending famine: the necessary immediate steps to avoid worst-case scenarios*, Sanaa Center for Strategic Studies

¹³ Interview with representative of al-Fahim importing, which handled 50% of wheat imports pre-crisis (1 December 2016).

Instability and a lack of oversight has left Aden import figures from WFP and OCHA Logistics Cluster reports, and therefore it is difficult to ascertain whether or not the smaller port is receiving similar amounts of goods compared to pre-crisis, or has witnessed an increase in imported commodities.

Dependence on the Gulf, and particularly Saudi Arabia, **for financial assistance, market access and remittances** also increases the state's vulnerability to the kingdom's political agenda. Various iterations of this relationship have been manifested in recent years. In 2012, Saudi Arabia provided USD 1 bn to maintain federal reserves, and avoid much-needed fiscal, monetary and policy reform. Yemen also depends on Saudi Arabia to export its oil via Mukalla and Aden, as the coalition controls the waterways and has a strong stake in the strategic Bab al-Mandeb strait. Furthermore, there is currently more than one million Yemenis living and working in the kingdom. As Saudi Arabia did during the Gulf war, the threat of expelling hundreds of thousands of foreign workers looms large and would prove catastrophic for livelihoods and household resilience; however the Saudis have also depended on Yemeni forces to defend their border from Houthi attack and to fill their southern forces. Such a move could only increase the level of threat faced from their southern neighbors, rather than mitigate it.

In less than two years, the war has debilitated the economy, with 14.4 million of the population food insecure and seven million severely food insecure¹⁴. In the last two years, GDP has contracted significantly—by 28 percent in 2015¹⁵, due to the halting of oil production and the fall of tax revenue caused by the closing of businesses and the laying off of employees. Inflation also rose by 30% in 2015—expected by the World Bank to reach similar figures in 2016¹⁶. Though some oil exporting resumed in August and the Aden refinery resumed production in mid-September, these positive measures will not counteract the compounding impacts of the conflict on the country's economy, and nor will they, in the short to medium term, filter down to the population—particularly to the most vulnerable IDP communities that are predominantly women and children living in areas that are difficult to reach. Without the payment of public sector wages, and the improvement of electricity production and fuel imports to assist in the re-opening of factories, household purchasing power will remain depleted and citizens will find access to simple medical care out of reach.

The risk of economic insolvency remains high. Indicators of such an outcome are the following: the Central Bank of Yemen has hemorrhaged through its reserves¹⁷, import and tax revenue have been crippled by conflict, the Yemeni riyal continues to fall against the dollar and the official rate, and the cost of basic goods has increased due to limits on imports and public sector wages depended on by more than one million Yemenis have remained unpaid since August. With few resources, little trade access and a bloated public sector, the economy is unable to recover itself, and was unable to manage even pre-crisis without Saudi support. However since the Houthi takeover of Sanaa in 21 September 2014 and their entrance into the war in March 2015, the

¹⁴ WFP, *Yemen Emergency*

¹⁵ Trading Economics (2001-2016), *Yemen: GDP Annual Growth*

¹⁶ World Bank (April 2016), *Yemen's Economic Outlook-Spring 2016*, MENA Economic Monitor

¹⁷ By the end of August only 700 million dollars were left in the reserves, less than the cost of one month of food imports, with no official investment or repayment of Yemeni salaries on a wide scale. Abdelaty, Ali and Noah Browning (20 September 2016), *Yemen's Houthis criticize exiled government's central bank move*, Reuters

government has frozen funding to the Sanaa-based Central Bank, stating that resources would benefit the Houthis. This explains the move of the Central Bank from Sanaa to Aden in September—to detach the financial institution from the Houthi base of control.

When the conflict began in March 2015 with the announcement of Saudi action, President Hadi and his cabinet fled to Riyadh, leaving the country without a government. In the context of rapidly depleting resources, the CBY faced a substantial challenge. In 2015, revenue declined by 53.7% due to the suspension of oil exports and a 19.2% drop in tax revenue caused by the closure of businesses and the laying off of employees. The halting of oil exports in March 2015 meant that Hummam was contending with a foreign currency crisis, as its dollar reserves had been serviced by energy revenue, and domestically, Yemenis were hoarding foreign currency, trading riyals into dollars on the black market, creating a cash crisis. In August, the Ministry of Cooperation and International Planning reported that the amount of money removed from circulation in the first half of 2016 was 300 billion Yemeni riyals (1.19 billion dollars), with 44% of that leaving the banking system in June alone. By the end of June, Yemen's debt to GDP ratio reached 95%¹⁸.

Households remain the most vulnerable to these shocks. Access to savings has been halved, and only 13% of households have access to foreign remittances in March 2016—of which a September report stated that access to these remittances was blocked by currency shortages, with banks unwilling to use the official exchange rate¹⁹. Expenditures on social services like the Social Welfare Fund which offers minimal but crucial financial assistance to poor families, ended at the beginning of 2016, leaving eight million of the country's most vulnerable people without a safety net²⁰.

The Saudi-led coalition has also targeted economic and social civilian infrastructure to further compound the crisis and increase household vulnerabilities through loss of livelihood, worsening food insecurity and the loss of basic services. Since the bombing campaign began in March 2015, the pro-Hadi coalition has targeted the northern Hodeidah port, factories, hospitals, power stations and transport infrastructure like roads and bridges²¹, leading the UN humanitarian coordinator for Yemen to state that: “the economic dimension of this war has become a tactic²²,” and teleologically, humanitarian suffering is its outcome and its pressure point for political negotiation. In the early months of 2016 the Saudi coalition also attempted to redirect imports from the northern Houthi-controlled ports to the far smaller port of Aden in another attempt to cripple the economy in the north and control access to basic commodities²³.

Governor of the Central Bank Muhammad bin Hummam implemented a series of fiscal and economic policies to stave off the liquidity crisis, currency devaluation and food insecurity. As the **poorest, most food-insecure country with the highest rates of malnutrition and stunting in the Middle East**, household resilience was already weakened by years of instability and a lack of

¹⁸ WFP (June 2016), *Yemen Market Watch Report : Issue 2*

¹⁹ FEWS NET (September 2016), *High Food Prices, Particularly in Ta'izz and Shabwah Governorates, Limit Purchasing Power*

²⁰ UNICEF (23 February 2016), *Yemen Crisis Situation Report 10-23 February 2016*

²¹ Hubbard, Ben (13 November 2016), *US Fingerprints on attacks obliterating Yemen's economy*, New York Times

²² Ibid.

²³ Interview al Fahim representative 1/12/2016. Road access between the north and south is restricted.

economic development, making Yemenis less equipped to cope with an economic downturn; savings exhausted and unemployment on the rise. Hummam managed to carry out the bank's three primary functions by maintaining **tight monetary policy** to mitigate rapid devaluation of the Yemeni riyal and hyperinflation, maintain **crucial grain and flour imports** at official rates for the import-dependent country²⁴, and pay **salaries** to the 1.25 million Yemenis on the state payroll²⁵, sustaining crucial service provision and preventing a security vacuum in the heavily-armed society. The CBY also continued to service domestic debt by issuing government bonds, and banned cash transfers in their original currency for a short time to lessen the scarcity of dollars from the economy.

HOUTHIS AND GPC EXPLOITATION OF THE STATE ECONOMY

Nevertheless, these measures could only postpone an inevitable state default and ran through remaining reserves. **While the Houthi Ansarallah and the Saleh-allied General People's Congress party (GPC) cannot be blamed for the country's near-economic collapse, they have exploited their proximity and control of Sanaa to misappropriate and redirect resources to fund their forces.** It would be incorrect to assume, however, that revoking access to CBY resources would cause the Houthis to capitulate.

The Zaidi Shia movement based in the north survived over the last two decades, supporting civil wars against their current ally, former President Ali Abdullah Saleh, without Yemeni federal resources and far less if any support from Shia Iranian and Hezbollah allies, solely through unofficial channels. Indeed the Houthis were able to systematize and consolidate informal economic exploitation and the extorting of resources once in Sanaa, with control over territory. The group is accused of cutting ministry budgets; taking a \$20 tax on civil servant salaries²⁶, cutting scholarships for students studying abroad, blocking the wages of opponents within the civil and military service²⁷, fail to adequately distribute liquidity to bank branches in other governorates to pay salaries, and organizing cartels for the black market trade of fuel and oil²⁸, all to redirect funds to their war chest.

What was in effect the final straw for the Saudi-supported Hadi government, was the disbursement of salaries to an estimated 425,000 military personnel—many Houthi and Saleh loyalists, as well as state employees in Houthi-controlled territories. This became a point of contention during the UN-mediated Kuwait negotiations in April and intensified until the talks dissipated in early August. During this period a government report was released showing that the Houthis were extracting an estimated 25 billion YR a month (more than 83 million dollars)²⁹.

²⁴ Sugar and rice pledges were cancelled in February 2016 due to falling dollar reserves. Saudi coalition airstrikes have hit numerous factories, warehouses and other civilian economic structures in Yemen. HRW (July 2016), *Bombing Businesses: Saudi coalition airstrikes on Yemen's civilian economic structures*

²⁵ Sana'a Center (September 2016), *Yemen at the UN-September 2016 Review*

²⁶ Al-Kamaly, Farouq (31 March 2015), *Houthis cut salaries of employees to fund Decisive Storm*, Al-Araby Al-Jadeed

²⁷ Al-Kamaly, Farouq (5 September 2016), *Houthis apply austerity measures to face the liquidity crisis*, Al-Araby Al-Jadeed

²⁸ Anon, (17 December 2015), *The war in Yemen...Opportunity for the Houthis to get rich through robbery and extortion*, Al-Khaleej Online

²⁹ Anon,(4 May 2016), *25 Billion a month for Houthi war efforts from the Central Bank and the government condemns it*, Al-Masdar

Yemen has long been plagued by a bloated civil service dispensing wages to estimated tens of thousands of ghost workers. Even when President Hadi took power in 2012 he promised to tackle the issue, but the patronage system expanded under his presidency. Though corruption has been persistent on both sides, when the Houthis took control of Sanaa in 2014, thousands of militiamen were added to army rosters entitled to state pay. Pro-government troops were also recruited after the war began, but were not on existing rosters, receiving salaries from the coalition alliance³⁰.

The Sanaa Central Bank is also accused of allowing pro-Houthi forces to interfere in the affairs of commercial banks, working with the Chairman of the Agricultural Cooperative Credit Bank who was appointed by the revolutionary committee. While it is true that Houthis have siphoned off finances for their own purposes, the primary reason behind dwindling reserves is the high demand for foreign currency in the country caused by conflict and a scarcity of goods³¹. A lack of reserves limits the anti-inflationary monetary policies that could have been implemented to prevent the Yemeni riyal from freefall, which led the Houthis to try to arrest owners of currency exchange shops not selling at the official rate³².

Later in the month, the government requested international financial institutions to deny the CBY access to its foreign currency reserves abroad, knowing that Sanaa had expended its domestic reserves and therefore would not be able to carry out its nationwide functions³³. This was followed by a high-level meeting between the Hadi government and the 'Quad': a group external to the UN peace process consisting of US, UK, UAE and Saudi representatives, who likely gave their blessing to Hadi's 18 September decree announcing the new governor for the central bank Monasser al-Kaiti, and the move of the bank from Sana'a to Aden.

IMPACTS—BOTH REAL AND UNREALIZED—OF HADI'S ECONOMIC POLICY

Failure to stabilize the economy

When the new elected CB governor Kaiti took over the Aden branch, he stated that he had inherited a bank without money, and that the Central Bank: "exhausted its foreign reserves and is no longer able to cover its commitments," that there was no local currency liquidity, that the bank has not paid interest on external debt since May or public sector salaries for the last two months³⁴. Though the central bank in Aden was established with the support of Hadi's Gulf allies, in addition to the US, UK, IMF and World Bank³⁵, it has so far failed to stabilize the country's economy. As the new Aden-based institution was predicated on the severing of financing to Sanaa, Gulf support of the project was assumed to be followed by financial aid, and yet in the months since the bank was established, it has so far failed to deliver this cash injection. Hadi's Gulf allies

³⁰ Browning, Noah (10 June 2016), *How Yemen's wartime central bank keeps country afloat*, Reuters

³¹ Nasser, Amal (15 May 2016), *Beware of the failure of Yemen's central bank*, Al-Monitor

³² Al-Kamaly, Farouq (2 April 2016), *Dollar in the grip of speculators and the Yemeni Central Bank loses control*, Al-Masdar Online

³³ Sanaa Center for Strategic Studies (September 2016), *Yemen at the UN- September 2016 Review*

³⁴ Bayoumy, Yara (24 September 2016), *Yemen plans U.N. complaint over Iran weapons transfers: minister*, Reuters

³⁵ Al-Qahtany, Badr (21 September 2016), *Aden Central Bank gets international support as Hadi speaks of rebel violations*, Asharq Al-Awsat

could be punishing the embattled President for not accepting a UN-brokered peace deal on 29 October that would lead to his succession, or simply unwilling to foot the bill for a long-term crisis.

As the functions carried out by the Sanaa CBY have not been replaced by the Aden branch, the financial conditions that are dogging the north are in no way sparing the south. While the Houthis asked for donations to the Sanaa bank, and created a system for people to donate via text message; citizens are expecting the legitimate Yemeni government to re-establish services that occupiers could carry out. The Hadi government in exile does not maintain control over Aden, and various groups in the city are vying for influence to pursue their differing objectives. Al Qaeda in the Arabian Peninsula (AQAP) has maintained a presence in the city, following its participation in Aden's liberation from the Houthis, fighting alongside Hadi's other allies. The city has also remained insecure enough since it was retaken by coalition forces that the president remains in Riyadh. In the weeks following the establishment of the central bank a car bomb injured several outside its premises.

Moving the bank without transitioning human resources, service provision or improving cash reserves also means that the Aden branch has not fulfilled its promise of paying salaries³⁶, even to those employed before September 2014, blaming the lack of data and liquidity. A full 1.25 million civil servants of a total 4.2 million employed persons in Yemen are unable to support approximately seven million lives^{37,38}, of which half are whom are children, and the failure to disperse them will signal security and political risks.

The falling value of the riyal, economic standstill, government service collapse and worsening humanitarian indicators (further detailed below) contribute to a perfect storm of factors that could well contribute to a famine in parts of the country. Currently the humanitarian response plan is half-funded, and as state institutions deteriorate it will fall onto the international community to direct scarce resources towards propping up the health system and access to food—something that will be untenable in the mid to long-term.

HUMANITARIAN IMPLICATIONS

An Unforgiving Baseline—Food Insecurity and Malnutrition

Yemen's complex war has the most devastating impact on citizens. Following 20 months of conflict more than 10,000 people have died, three million displaced, and 21.1 million people need some form of humanitarian assistance, with 14.4 million food insecure, and 7.6 million of those severely food insecure. Almost 20 million lack clean water and 14.1 million are without adequate health care³⁹. Indicators are only worsening. Huge damage to health infrastructure and poor access to water and sanitation has led to cholera outbreaks in major population centers.

The dire humanitarian situation facing Yemenis has been compounded by endemic high rates of poverty and malnutrition witnessed before the war. Yemen was the Arab world's

³⁶ Though reports of up to several thousand employees receiving partial wages for November, but not for those in arrears, in Aden.

³⁷ ILO (27 October 2015), *Yemen publishes first labour force survey in over 15 years*, Labour Force Survey

³⁸ UNOCHA Yemen(November 2016), *2017 Humanitarian Needs Overview*

³⁹ WHO, *Yemen Humanitarian Response Plan 2016*

poorest country, with 43% of the population living in poverty before the war⁴⁰. The World Bank estimates that the number of Yemenis living in poverty increased from 12 million in April 2015 to over 20 million today—nearly three-quarters of the population. Also, with the country dependent on imports for 90% of its food needs⁴¹, rates of malnutrition were already some of the highest in the world⁴². In 2014, UNICEF and WFP reported that over 10 million Yemenis—more than 40% of the population—was food insecure, 5 million people of them severely⁴³; GAM rates were serious across most of the country and at emergency levels in some areas. Malnutrition rates were the highest in Taiz, Hodeidah and Hajjah⁴⁴. Since then, hunger has deepened across the country as government health services deteriorate, with state economic collapse and the collapse of livelihoods vastly accelerating rates of malnutrition.

According to the Yemen Nutrition Cluster Advocacy Paper **since late 2014, the country has experienced a 65% rise of people in need**. Until late summer, the CBY was still able to guarantee imports of wheat flour and wheat, and civil service wages were dispersed. The loss of livelihood, closure of health facilities caused by non-payment of wages and lack of supplies, as well as price increases of basic commodities will have an immediate and severe impact on Yemenis. According to UNICEF, at least 192 nutrition centers across Yemen were closed due to insecurity or a lack of supplies, despite escalating rates of malnutrition. In less than two years of war, around one in four companies closed and 70% of the workforce was laid off⁴⁵ in addition to the non-payment of more than one million salaries, dramatically depressing household purchasing power. With the possibility of intensified military offensives in the north, Yemen is on the cusp of a countrywide emergency compounded by devastated resiliency and coping mechanisms.

FOOD ACCESS

Macro and micro-economic and physical challenges created by the conflict have severely impeded physical and economic access to food. Without an end to the economic blockade and stabilization of the Central Bank, food insecurity could worsen to famine levels in parts of the country. Social access⁴⁶, so to speak, has allowed Yemenis to depend on a strong and cohesive social network of family and neighbors and a sharing culture that has protected the most vulnerable from shocks until quite recently. Yet the halting of much economic activity and wage payment and the depletion of savings is dismantling the social network.

Physical Access

⁴⁰ UNFPA, *Crisis in Yemen: Situation Analysis*

⁴¹ Yemen Food Security Information System (FSIS) Development Programme (October 2016), *Yemen Food Security Update*

⁴² In 2011 UNICEF SMART surveys found a GAM rate of 31.7% in Hodeidah, with 60% of children underweight and 54.5% stunted. Abyan witnessed a GAM rate of 18.6%, Hajjah of 31.4%. The Yemeni Minister of Health said 500,000 children suffered from acute malnutrition across the country. USAID (28 December 2011), *Yemen—Complex Emergency: Fact sheet #3*; IRIN (27 December 2011), *Malnutrition data should “shock”*

⁴³ WFP (15 July 2014), *Food Security Survey shows 10 million Yemenis still struggle for food*

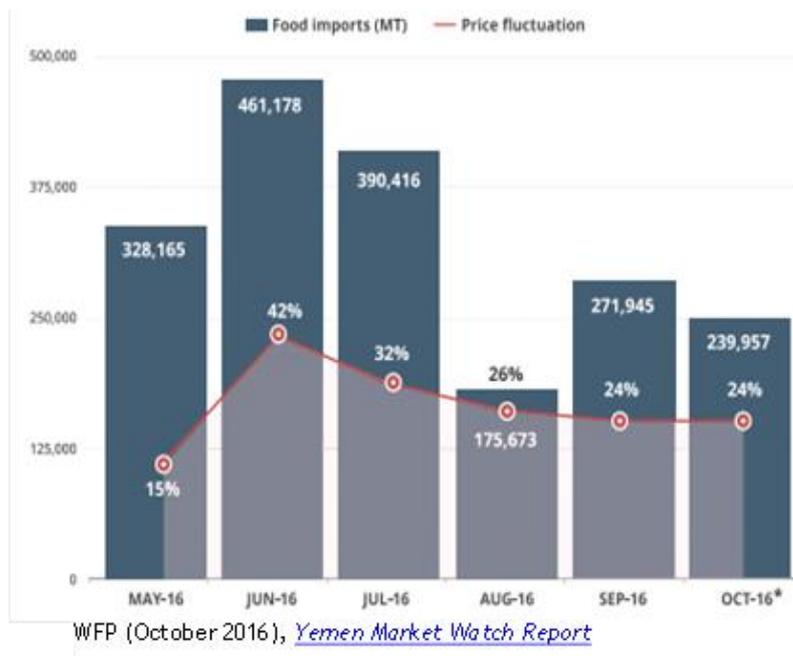
⁴⁴ Ibid.

⁴⁵ Oxfam International (21 September 2016), *War pushes millions in Yemen to brink of catastrophe*

⁴⁶ Food security definition from Coleman-Jensen, A., Nord, M., Andrews, M., Carlson, S. (2011), *United States Department of Agriculture: Household Food Security in the United States in 2010*

Physical access has been circumscribed by the Saudi-led coalition's targeting of economic infrastructure and implementation of a land, sea and air blockade that intensifies as the war continues. Trade across Saudi's borders was halted earlier this year in 2016, though the trade of luxury goods and other limited commodities continues from Oman. Goods entering through the small port of Aden have not been monitored by UNVIM, so there is a possibility that there could be elevated trade from the port despite the insecurity of the area, but the northern Saleef and Hodeidah ports, which bore the brunt of food commodity imports pre-crisis, have witnessed a significant drop in received goods.

Food commodity imports plunged dramatically in August 2016 alongside the collapse of the Kuwait peace talks and recovered by around 30% in September and October, albeit it to numbers substantially lower than seen earlier this year. October imports remained almost half of those received in June. As Yemen depends for 90% of wheat⁴⁷ and 100% of rice on imports, in addition to 90% of total food consumed, a continued decrease will have a severe impact on food

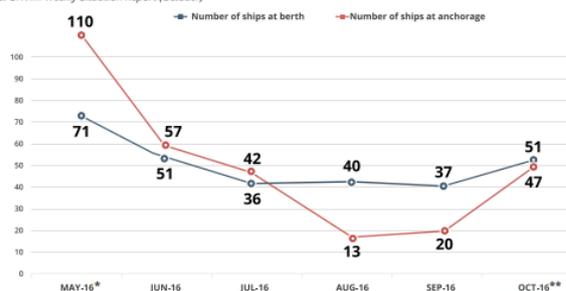


security. Several factors are responsible for this outcome: commercial importers unable to guarantee cargo due to central and commercial bank issues and unrepaired damage to Hodeidah port, causing long unloading times.

The fall in imports coincided with a Reuters report in July that importers were struggling to buy food abroad because \$260 million worth of funds were frozen in Yemeni banks, while Western banks had cut credit lines. Smaller importers depending on credit were immediately forced to cancel forward contracts impacting late October and November shipments, whereas the largest wheat importers al-Said and al-Fahem were able to continue imports slightly longer, using their own cash reserves. Al-Said and al-Fahem both halted exports in November and September due to non-payment, though several ships from previous contracts remain at sea.

⁴⁷ IFPRI Discussion Paper 00955 (February 2010), *Impacts of the Triple Global Crisis on Growth and Poverty in Yemen* (Clemens Breisinger et.al)

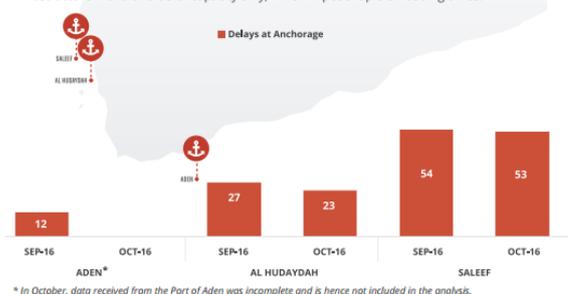
Source: UNVIM Weekly Situation Report (October)



* In May 2016, data for Nisthun, Mukalla, Al Hudaydah, Saleef and Aden are included, which explains the significant increase of vessels.
** In October 2016, data reported for the Port of Aden was incomplete.

Average delays in entering ports

Due to limited infrastructure, delays are still experienced in the ports of Aden, Al Hudaydah and Saleef. The number of days corresponds to the average time that vessels spend at anchorage, waiting for berth permit. In October, the longest delays at anchorage remain at Saleef port, with vessels waiting for berth an average of 53 days. Delays at the port can be attributed to the very limited infrastructure with a two-berth capacity only, which impede rapid offloading times.



* In October, data received from the Port of Aden was incomplete and is hence not included in the analysis.

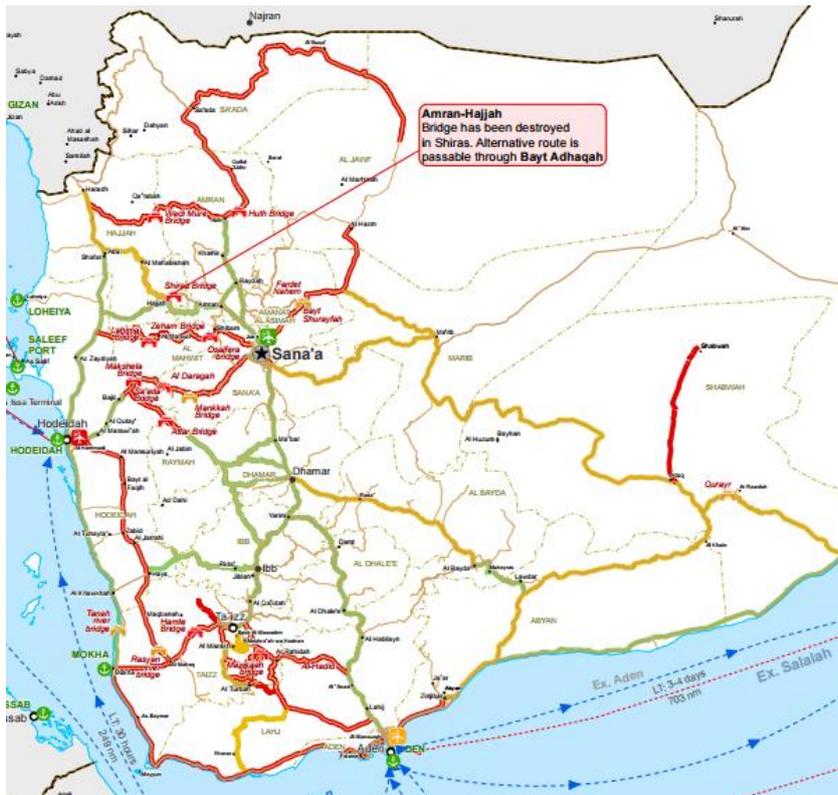
The Saudi blockade of the port of Hudaydah and damage caused by coalition airstrikes in August 2015 damaging warehouses, cranes, customs buildings and the container platform has also slowed down offloading time up to an average 26 days before berthing due to manual offloading and debris from the water quay side, dismantling of the five destroyed cranes and training need attention, down from 2-3 pre-crisis, creating additional costs for importers¹. The port is operating significantly below capacity despite UN efforts to stave off starvation by establishing the UNVIM mechanism to ensure that Iran was not using the port to smuggle weapons. The port handled a massive 60% of Yemeni imports pre-crisis¹. This has led to scarcity particularly in certain parts of the country, compounded by a liquidity crisis which has caused inflation, which has increased prices and decreased purchasing power.

The UNVIM pulled together by OCHA and run by UNOPS cleared over 190 commercial vessels to offload over three million metric tons of food, fuel and supplies at Hudaydah, Ras Isa and Saleef ports since May 2016. Offloading cargo can take up to 30 days on average because of inefficient port management, financial disputes between shippers and mostly slow offloading due to limited capacity at Hudaydah port in August 2015. Damaged cranes need to be removed to install emergency mobile cranes to assist.

This is dire for the country's food security in the coming months. Few other private sector importers would willingly front the 10-15 million dollars to support a freight ship of wheat reaching port with the high risk of currency devaluation and non-payment, and even the increase of smaller-scale importers using dhows, for example, would fail to even approach the capacity needed to replace the supply provided by larger companies. FAO estimates that Yemen requires between 233,000 to 250,000 MT of wheat each month. With approximately 750,000 MT estimated to be in stock as of September 2016, stores could cover three to four months of needs. Considering shipments still waiting to be unloaded, these stores could last until April 2017. In markets, WFP has stated that availability of food "continued to be scarce in most local markets of the country," particularly in governorates heavily affected by conflict, like Taiz and Sa'ada¹. However, in some areas, greater availability was said to have been caused by "informally unregistered overland imports from neighboring countries⁴⁸"—evidence of the already developing parallel market. A further indication of this phenomenon is shown in market integration studies of the comparing the maximum and minimum values of food baskets across governorates. The difference between values decreased in September, suggesting slightly better market integration, possibly due to reduced conflict and improved trade⁴⁹. While some markets remain disintegrated, it appears that on average, the decline in violence in some areas is allowing natural market functions to flourish.

⁴⁸ WFP (October 2016), *Yemen Market Watch Report*, Issue no. 6

⁴⁹ Ibid.



WFP (December 2016) [Access Constraints as of December 2016](#)

On land, transport prices remain elevated due to reduced fuel imports, but have not increased substantially in recent months. Regarding road access, within Houthi areas road access has been relatively stable, and in the south similarly. Access from Aden to Sanaa has also been managed between Houthi and pro-government forces, but remains restricted for Houthi profit of incoming goods. Such conditions would likely remain if this control of territory is stable. Nevertheless, the lack of commodities entering the country and the cost—of

which most Yemenis can no longer pay—has led to a prioritization towards Yemen's two centers of power where people can still pay. Market access has been facilitated by informal networks and supply chains, and at the local level, families have reported sharing food among kinship and social networks while reducing the number and size of daily meals⁵⁰, but these coping mechanisms are only small efforts to mitigate the much larger impact of price shocks and importation dynamics.

Economic Access

Though average commodity prices have remained stable in the last four months, the nearly 25% increase in comparison to pre-crisis levels remains a daunting challenge for the many families who have lost sources of income during the nearly two years of war¹. Furthermore, prices of basic food commodities vary significantly across governorates, depending on violence and the intensity of airstrikes. Prices in the Houthi-besieged governorate of Taiz remain the highest⁵¹.

The stabilization of prices, however, can be attributed to several factors: reduced demand due to diminished purchasing power⁵², leading to lower prices; stable fuel prices aided by the resumption of exports and diminished demand⁵³; and better availability of food in local markets. Diminished purchasing power is also having a severe impact on already depressed household food consumption. WFP in its October 20-16 Market Watch wrote that buying behavior among

⁵⁰ WFP (September 2016), *Yemen Market Watch Report*, Issue no. 5

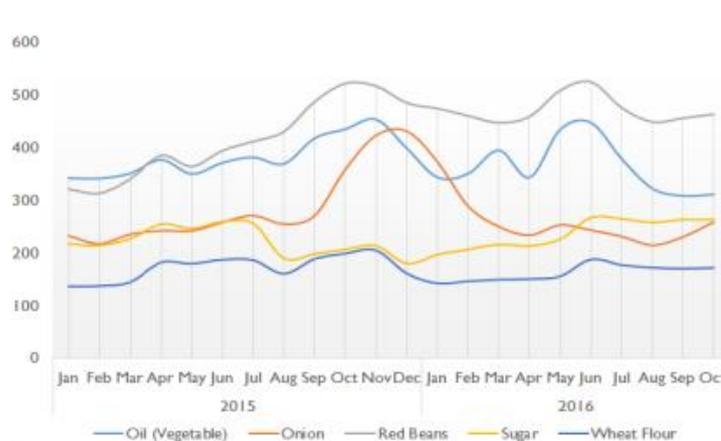
⁵¹ WFP (October 2016), *Yemen Market Watch Report*, Issue no. 6

⁵² FEWS Net (31 March 2016), *Yemen: Key Message Update, March 2016*

⁵³ cooking gas (72%), diesel (23%), petrol (26%): WFP (November 2016), *Yemen Market Watch Report*, Issue no.7

consumers is changing, with many buying smaller quantities and requesting to buy on credit due to shortages in money⁵⁴. IDPs remain the most vulnerable, with 80% reporting meal size and frequency reduction⁵⁵.

The Alert for Price Spikes (ALPS) methodology in October 2016 showed normal situation for wheat flour, vegetable oil and red beans, with sugar remaining on a crisis status (as it is no longer prioritized by



WFP (October 2016), *Yemen Market Watch Report*, Issue no. 6

the government for subsidization). Prices for sugar and rice, 46.2% and 48.4% are a possible indicator of what will happen to wheat and wheat flour prices, which are currently 25.7% and 21.6% above pre-crisis levels. Wheat prices remain high despite a decrease in international wheat flour prices to 123.2 US dollars per metric ton, down 25% since last October⁵⁶. Locally produced commodities have increased by even greater margins: sorghum, millet, maize and barley had prices between 50 and 70% above pre-crisis levels. Local production accounting for an estimated 30-35% of food consumed has had the challenges of scarcity and high price agricultural inputs, farm labor and machinery expenses as well as accessibility to land. Overall, the ongoing conflict and the challenges in the importation of inputs in particular after the closing of the airport and the decline of private and public services; high cost of fuel and transportation costs will continue challenging the sector and contribute to high prices of the products in markets in the coming months. The stabilization of basic food commodity prices fails to show the remaining vulnerabilities of the majority of Yemenis living in poverty, contending with a liquidity crisis, devaluation of the currency, loss of income and lack of salaries.

Though dwindling revenue led the CBY to cut subsidies for rice and sugar in February 2016, the bank managed to maintain prices for wheat and wheat flour throughout the conflict, preventing a food crisis. However the failure of the Central Bank in Aden to assist importers in providing lines of credit, guarantee the value of the riyal or allow access to funds in local accounts, has led the largest companies importing into Yemen to take on no new contracts for the next quarter. Therefore, for the fewer goods entering the country in the New Year, prices will likely be further elevated.

⁵⁴ Ibid.

⁵⁵ Ibid.

⁵⁶ Index Mundi, *Wheat Monthly Price- US Dollars per Metric Ton*

⁵⁷ WFP (October 2016), *Snapshot on Shipping, Food and Fuel Imports*, Logistics Cluster

Fuel Shortages

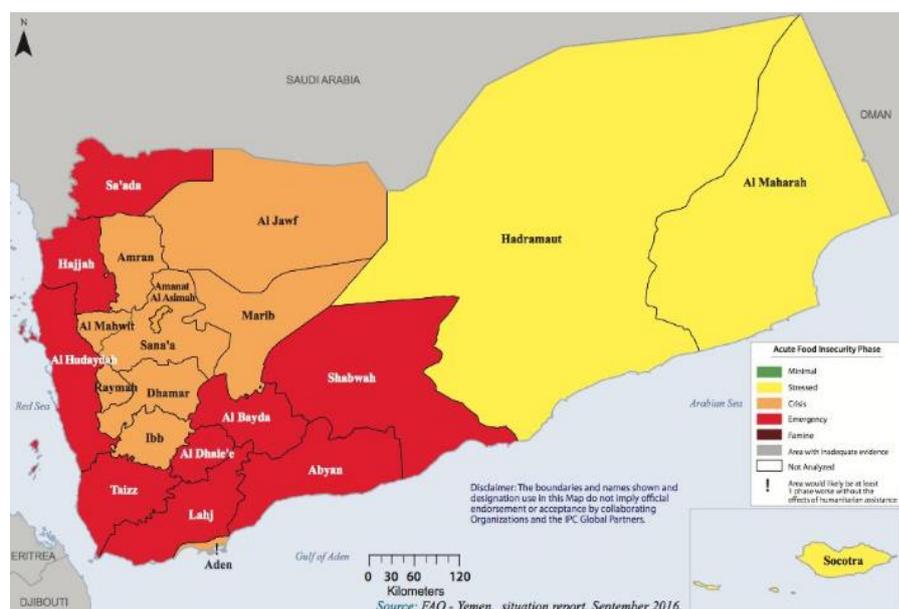
Yemenis are dependent on fuel to pump water for domestic water supply, cooling, sanitation, irrigation and the transport of goods. Due to market and price uncertainty and conflict-related access disruptions across the country, despite a slight increase witnessed in October, fuel imports represent only 39% of the country's needs, or 544,000 MT/month.⁵⁷ Though there has been some improvement to prices in Sanaa, Dhamar and Hajjah between July and August 2016, prices of diesel and petrol have varied widely particularly due to conflict dynamics. Highest prices have been witnessed in Taiz. The sale of fuel on the parallel market will remain an important source of income for parties of the conflict.

Hunger and Malnutrition

Malnutrition is a well-documented result of Yemen's long-standing food insecurity, but today, coping mechanisms are failing to counteract large-scale hunger and intensifying malnutrition. Today, 2.1 million people are malnourished, and three million people are in need of nutrition assistance⁵⁸. Half of Yemen's children under five stunted due to chronic malnutrition⁵⁹. Today more than half the population is experiencing either crisis (phase 3) or emergency (phase 4) levels of insecurity.

Nearly 3 million people (74% children under 5 and 26% pregnant and lactating women) require humanitarian nutrition assistance. Children continue to suffer the brunt of these effects. One in three under-fives are acutely malnourished and at least 370,000 suffer from severe acute malnutrition (SAM)⁶⁰ of a total 462,000 children⁶¹. This number has increased by 200 per cent since 2014, with the governorates of Hodeida, Taizz, Sa'ada, Hajja and Lahj worst affected⁶².

Furthermore, rates of moderate acute malnutrition are projected to have increased substantially since pre-conflict levels, from 690,000 pre-crisis, to 1.7 million in 2016, in addition to the estimated 2.2 million children who are acutely malnourished⁶³.



⁵⁸ UNOCHA (23 March 2016), *Yemen: Humanitarian Dashboard January- February 2016*

⁵⁹ The World Food Programme says half Yemen's children under five are stunted. WFP, *Yemen*

⁶⁰ UNICEF (August 2016), *Yemen Humanitarian SitRep*

⁶¹ UNICEF (12 December 2016), *Malnutrition amongst children in Yemen at an all-time high, warns UNICEF*

⁶² Ibid.

⁶³ Ibid.

Indicators are compounded by deteriorating health services, where of the approximately 45% of functioning facilities, approximately 63% offer child health and nutrition services; 220 facilities treating malnutrition closed due to lack of supplies and insecurity⁶⁴.

SMART nutrition surveys conducted by UNICEF and the Ministry for Public Health in May 2016⁶⁵ showed “alarming rates,” in most parts of the country, but particularly severe in lowland areas, as compared to the highlands, which receives higher amounts of rain and is an agricultural heart of Yemen. The highest rates of malnutrition were seen in Hodeidah governorate, which had a Global Acute Malnutrition (GAM) rate of 31%. Taiz city (17%), Taiz Lowland (25.1%) and Aden (19.2%) were also above WHO’s emergency threshold of above 15%. SAM rates above the 2% crisis threshold were seen in most governorates. While it is clear that hunger continues to worsen in Yemen, detailed data on malnutrition is insufficient and fails to capture localized pockets of famine where challenges to access limit aid. According to the FAO, 19 of the country’s 21 governorates are experiencing at least crisis IPC levels of food insecurity, while nine governorates along the western coast and lowlands are at emergency levels. While some recent surveys have shown only a slight increase to GAM rates at the governorate level⁶⁶, the localization of hunger has slipped through the cracks. Examining instead figures for medical admissions for severe acute malnutrition, Hudaydah has witnessed the largest number of admissions both before and after the conflict began. Nevertheless, access to health facilities and programs is crucial to the collection of this data and feeds into its accuracy.

Ongoing conflict continues to have a worsening impact on food consumption in numerous governorates across the country, or which only Al Maharah, the governorate adjoining Oman, reports acceptable food consumption from more than 80% of citizens. According to WFP’s September mVAM survey, more than 20% of households reported poor food consumption in ad-Dali’, al-Bayda’, al-Jawf, al-Mahwit, Lahij, Hajjah, Ma’rib, Sanaa, Shabwa, Raymah and Ta’izz⁶⁷. A higher proportion of IDPs compared to non-displaced populations in all areas are affected. October also saw a worsening in ad-Dali’, al-Bayda’, al-Mahwit, Lahij, Sanaa, Shabwa and Raymah⁶⁸. Alongside poorer food consumption are reported reduced coping strategies (rCSI) of over 20%. Governorates with the highest percentages of respondents with poor scores were in al-Jawf, al-Mahwit, Amran, Dhamar, Hajjah, Ibb and Taiz⁶⁹. With little opportunity for improved livelihoods, these governorates will quickly see a worsening of needs and decreased food consumption.

Areas that are not facing emergency levels of food insecurity are the highlands governorates, which experience higher levels of rainfall, and grow wheat, sorghum, qat, livestock, fruit, vegetable, grain, oat, millet. To the east, Hadramawt and Al Maharah governorates are pastoral

⁶⁴ UNOCHA (4 April 2016), *Humanitarian Bulletin*, Issue 10

⁶⁵ UNOCHA (25 October 2016), *Yemen: Humanitarian Snapshot – A temporal overview of the conflict and its impact*

⁶⁶ 14% compared with 12.1%. FEWS Net (October 2016), *Yemen Food Security Outlook: Significant populations continue to face large gaps in their basic food needs*

⁶⁷ Ibid.

⁶⁸ WFP (September 2016), *Yemen: mVAM Bulletin #14: September 2016*

⁶⁹ Ibid. Al Jawf (51 percent), Al Mahwit (54 percent), Amran (59 percent), Dhamar (58 percent), Hajjah (61 percent), Ibb (51 percent), and Ta’izz (52 percent). The lowest percentages were reported in Aden (27 percent) and Al Maharah (22 percent).

and agro-pastoral zones⁷⁰. Hodeidah and other coastal governorates have been affected by the coalition blockade and conflict-related restrictions on fishing. Particularly impacted by food insecurity are IDPs, who are more likely to suffer from lack of access to income. High proportions of IDPs are in Taiz, Hajjah, Sanaa, Amanat al Asimah and Dhamar.

Agriculture and livelihoods suffering

More than contributing to food security, the agricultural sector is a crucial source of income for the Yemeni population. Almost 70% of Yemen's population, or 19 million people, live in under-served rural areas, with around 10 million people depending on agricultural production for their livelihoods, despite the sector's small contribution of 20% to the country's GDP^{71,72}. While in general this has led to a broader trend of rural to urban migration between 2010 and 2015, the Saudi military intervention contributed to larger numbers fleeing cities to villages, which already suffer from inadequate service provision, access to electricity or drinking water⁷³.

Yemen production has been severely impacted by the current conflict in livestock, agriculture and fishery sectors. Disrupted access, destruction of infrastructure and equipment, displacement, increased costs or unavailability of inputs caused by the economic blockade are all contributing to lower productivity. Using 2012 as a measure of a good harvest, 2015's local cereal production decreased by 50%, compared to 30-35% in 2014⁷⁴; 2016 production is likely to be similar to the year prior due to above-average rainfall across the country, offsetting the challenges of locust infestations and conflict. Food products also fail to reach all parts of the country equally; wheat and meat products are only available sporadically in 15 governorates⁷⁵.

Livestock producers are often the most vulnerable of rural populations, consisting of the landless and small landholders. Production continues to decline due to scarcity and increased costs of inputs; reduced veterinary services and vaccinations; high transportation costs, lack of storage and a 29% decreased in livestock returns (costs) due to difficulties exporting⁷⁶. The blockade has made it difficult to source seeds, fertilizer, fuel, labor, animal medicines like anti-clostridium drugs, foot and mouth disease vaccines, and anti-parasites medicines, and feed. Compounded by weather extremes, livestock have been further impacted by parasites and PPR, sheep and goat pox flourishing. Though FAO charted a slight improvement in the supply of inputs in September, the shortage of hard currency and devaluation of YR against the USD will worsen the situation in the long term. Continuing high costs of fuel will continue to increase the price of irrigation, transportation and marketing⁷⁷, and insecurity continues to pose problems for farmers working in conflict-afflicted areas like Taiz, Saada, Marib, Hajjah, Al Bayda and al Jawf.

⁷⁰FEWS Net, *Yemen Livelihood Zones Map*

⁷¹ Al-Muslimi, Farea and Mansour Rageh (October 2015), *Yemen's economic collapse and impending famine: the necessary immediate steps to avoid worst-case scenarios*, Sanaa Center for Strategic Studies

⁷² FEWS Net (April 2015), *Yemen Food Security Brief*

⁷³ IRIN (13 August 2012), *Time running out for solution to water crisis*

⁷⁴ Similarly, the production estimate of Sorghum, Maize and Millet, Wheat and Barley compared to 2014 production season has decreased by 35%, 35%, 33%, 35%, and 25% respectively. WFP (October 2016), *Yemen Market Watch Report*, Issue no. 6

⁷⁵ FEWS Net (Feb 2016), *Yemen Food Security Outlook February to September 2016*

⁷⁶ IPC (June 2016), *Republic of Yemen: IPC analysis-Summary of findings*

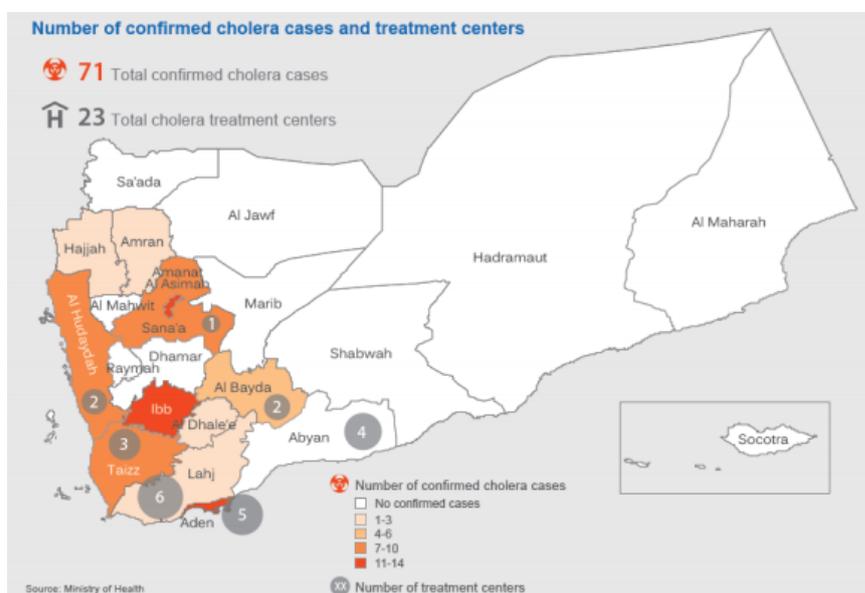
⁷⁷ Ibid.

Fishermen have also found restricted access to the sea, blockage of exports, lack of storage capacity and increased fuel prices a challenge. The number of individuals receiving their livelihoods from fishing has reportedly halved to 35,000 since the conflict began⁷⁸.

Health and WASH

Alongside poor access pre-conflict and worsening economic conditions, access to medical care has become further out of reach for the majority of Yemenis. Less than one third of the country's population has access to medical care, and less than half of health facilities are functional⁷⁹ due to the non-payment of wages and the difficulty of importing supplies⁸⁰. In addition to poor access to clean water and sanitation, cholera outbreaks have been charted in Aden, al-Dali', al-Bayda', Hodaydah, Amran, Hajjah, Ibb, Lahj, Sanaa city, Sanaa governorate and Taiz since October 7. The greatest impact of this health crisis is on child health and nutrition.

Inextricably tied with the economic blockade, high fuel prices have increased the price of safe water, causing citizens to resort to drinking from streams and charitable *sabeel* water tanks, driving people into a dangerous feedback loop of poor water, access to healthcare, and increased malnutrition. The spread of cholera in a number of Yemen governorates is compounding humanitarian vulnerabilities in the country and will require a significant humanitarian intervention to prevent the deaths of Yemenis due to poor access to water and sanitation.



UNOCHA (1 November 2016), [Yemen: Cholera Outbreak](#), Situation Report No.2

The World Health Organization (WHO) estimates that a total of 7.6M people live in high-risk areas, with projected case estimates of up to 76,000 people⁸¹.

Water and sanitation infrastructure and access to healthcare was weak across the country pre-conflict with only 55% of the population accessing improved water sources⁸² and one third of the population lacking basic healthcare services⁸³. Following 20 months of conflict, the caseload of people seeking better access has nearly doubled to 14 million people^{84,85}. A lack of supplies,

⁷⁸ Ibid.

⁷⁹ 45 percent of health facilities are fully functioning, while an additional 38 percent are partially

functioning and 17 percent are closed. WHO, [Yemen: Health services decline as conflict in Yemen continues](#)

⁸⁰ UNICEF (12 December 2016), [Malnutrition amongst children in Yemen at an all-time high, warns UNICEF](#)

⁸¹ UNOCHA (1 November 2016), [Yemen: Cholera Outbreak](#), Situation Report No.2

⁸² The World Bank, [Improved water source \(% of population with access\) and Yemen](#)

⁸³ UNOCHA (November 2013), [Yemen Humanitarian Needs Overview 2014](#)

⁸⁴ UNICEF (September 2016), [Yemen Humanitarian Situation Report September 2016](#)

⁸⁵ UNOCHA (12 April 2016), [Yemen Humanitarian Snapshot](#)

medicines, electricity, staff or equipment has caused a significant decline in access to health services, impacting children under five, pregnant women and those suffering from chronic disease the most⁸⁶. While chronic malnutrition was already a severe issue affecting Yemenis, according to UNICEF, today 370,000 children under 5 are at risk of Severe Acute Malnutrition (SAM)⁸⁷ and another 1.5 million are already acutely malnourished⁸⁸. In less than two years of conflict, the intensification of hunger has increased from 500,000 children across the country suffering from GAM, to 1.5 million. Recent cholera outbreaks and the highly infectious measles virus will leave millions of children more vulnerable, with weaker immune systems⁸⁹.

The decreased access to, and capacity of health infrastructure and systemic lack of access to clean water and sanitation, as well as the ongoing impact of the conflict has led to a possible public health emergency in parts of the country, as a cholera epidemic in Sanaa, al-Bayda, Hodeidah, Aden and possibly Taiz spreads. The sustained airstrikes on sewage systems, water access, psychological impacts, less access to hygiene process and disruptions to health facilities has caused a cholera epidemic. With only 45% of health facilities, no medical doctors in 49 out of 276 surveyed districts and only 2 doctors or less in 42% of surveyed districts⁹⁰, this remaining capacity is threatened by the sustained non-payment of public wages and costs to run medical facilities.

Acute diarrhea and cholera also impact malnutrition as individuals rapidly dehydrate. As much as humanitarian actors and UN agencies scale up health and rapid WASH responses, with contributing symptoms prevalent across the country, the risk for further outbreaks across the country remains high. The WHO estimates that only 30% of the medicine needed is coming into Yemen, that insulin can last for only several more months, and the lack of fuel, electricity, water and oxygen is impacting the only 45% of health facilities still operating.

STRATEGIC FORESIGHT

Following the overview of the political, socioeconomic and humanitarian situation earlier in the report, this section will examine three different scenarios with associated political and security implications and humanitarian impacts.

Heavy Trends

- **Ongoing conflict, the collapse of the CBY and devaluation of the riyal** will increase macro and micro-level food insecurity and GAM and SAM across large parts of the country, due to the inability to guarantee commercial food imports and market scarcity.
- IPC levels of famine could be seen in parts of the country, like Taiz, southern Hodeidah and smaller pockets across the north, causing starvation and a high prevalence of acute malnutrition (above 30%), particularly in western parts of the country where humanitarian access is limited, with higher losses of livelihoods. Malnutrition will

⁸⁶ Ibid.

⁸⁷ UNICEF (September 2016), *Yemen Humanitarian Situation Report September 2016*

⁸⁸ Save the Children (31 October 2016), *Millions of Yemeni children facing triple threat of cholera, measles and malnutrition*

⁸⁹ Ibid.

⁹⁰ WHO (6 November 2016), *Survey reveals extent of damage to Yemen's health system*

continue to be compounded by contagious illnesses like cholera, acute diarrhea and malaria. Greater needs will be seen in conflict-affected areas, for displaced persons and children.

- Displacement will increase, impacting women and children disproportionately.
- Food imports will continue to decrease due to a currency fluctuations and the inability of the Central Bank to provide credit insurance.
- The continued non-payment of public sector wages, general lack of employment and lack of access to remittances will quickly increase vulnerabilities and worsen household resilience for a quarter of all employed Yemenis and the 6 million people depending on these salaries, purchasing power and demand will suffer, even if prices do not increase.
- **Financial and economic indicators** will also contribute to **fuel price increases** and scarcity, which will decrease the capacity of remaining functioning health services and decrease availability to water sources, as well as contributing to higher food prices.
- **Economic collapse** caused by risky state economic decisions, low export revenue, a lack of federal reserves, currency devaluation and inflation will lead to the expansion of the parallel market, benefiting the Houthis and their supporters the most. It will also slow down investment when the conflict stabilizes.
- **Unemployment is causing men and women to undertake dangerous coping strategies, including joining armed groups and early marriage.**
- The **Southern Separatist Movement, or Hirak**, will be empowered by the creation of the Aden Central Bank and Hadi's decreasing legitimacy to push for secession, dividing southern forces loyal to the government and increasing instability.
- Without significant political negotiations, the **GPC-Houthi alliance will continue to carry out steps to create a parallel government** in violation of UNSC resolutions that will impact future negotiations.
- Worsening state fragility and humanitarian indicators will create a vacuum that **Islamist non-state armed extremist groups** will thrive in, exploiting sectarian rhetoric used by both sides to spread particularly in the south, conducting attacks on Sanaa and other Shia population centers.
- **Humanitarian organisations** will be expected to **carry out state functions** including food and medical imports to prevent a widespread famine.
- **Recruitment of soldiers** as families become increasingly destitute; **resurgence of the marriage of young girls.**

Key Assumptions

- No inclusive political solution to end the conflict in the next six months, at least maintaining unity within two sides.
- Expansion of AQAP on Yemen's southern coast.
- Southern separatist aspirations will increase against Hadi government, maintaining instability around Aden.

- Economic and humanitarian indicators worsening tremendously across the region, impacting household resilience.
- Not vastly improved oil production, depressed tax revenue means federal reserves remain empty without Gulf support.

SCENARIOS: POLITICAL AND SECURITY IMPLICATIONS

Each scenario aims to provide a differing six month outlook into the context of Yemen, weaving together hypotheses concerning key drivers in the country to create a cohesive possible outcome, despite high levels of uncertainty.

The Road to Peace

Pressure from Saudi and US allies forces President Abd Rabbu Mansour Hadi to accept UN peace deal 276, which paves the way for Hadi's retreat following a transition of government and the withdrawal of the Houthis from Sanaa. Immense external and economic pressure force his hand, as the government needs an injection of billions of dollars to float the Central Bank, but he and his government do not accept the cards so willingly.

Saleh's ability to carve out a role for himself in the unity government causes Hadi and his VP Ali Mohsen to agitate their southern supporters to push for a partitioned state and oppose negotiations. Unrest in the southern city of Aden impedes aid and economic development, and creates a vacuum for AQAP and IS attacks. Small battles ensue between Southern loyalists and Houthi forces particularly in Taiz.

Political Implications:

The Aden government will continue to destabilize external efforts to implement a peace deal. There will be huge pressures to include a broader range of political actors to avoid a repeat of the 2011 NDC. The growing weakness of the Hadi government will allow for other actors to take precedence, including AQAP.

Security Implications:

While the north might experience a reprieve from airstrikes, the likelihood of unrest among tribal, Islamist and southern secessionists increases. Severe poverty will create pull factors for young men to join armed groups, and criminality will increase. AQAP will begin to expand in Aden as attention is focused on the north.

Indicators

- Ceasefire ending successfully, as a trust-building measure between parties
- Suspension of Houthi-Saleh Supreme Political Council
- Houthis begin withdrawing from key cities, like Taiz and Sanaa.
- Saudi/GCC/IMF dispersal of funds to the CBY branch in Aden
- Payment of civil service wages across the country.
- Increased humanitarian access across the country; food aid.

Humanitarian Consequences:

Political transition or more concerted negotiations would lead to an increase in humanitarian assistance and access, predicated on economic measures to prop up the state and prevent famine. Measures would likely with a focus on lifting the de facto coalition blockade on the north, by repairing the port of Hodeidah. The UN, INGOs and development organizations will be invited to assist in reconstruction, likely focused on the south and areas of greatest need under Houthi control, like Hodeidah and Taiz. IDPs begin to return to cities held by the Houthis, like Taiz, putting increasing pressure on few resources. Divisions emerging particularly within the Houthi-Saleh alliance would lead to decreased access in some areas as frontlines solidify. The likelihood of asymmetrical attacks would increase, though in general attacks on public facilities in Houthi-held areas would likely lessen. Due to the baseline, needs and displacement will be high.

Yemen is Burning

A lack of investment in the economy and stalls to the political negotiations triggers the centrifugal forces of separation between southern and northern allies, with growing calls for political partition. President Hadi's unwillingness to accept terms of US, UK, Saudi and UAE-backed peace deal prevents injection of much needed fiscal stimulus to Aden's Central Bank. The lack of money in either bank prevents the carrying out of essential functions, including debt servicing, the paying of 1.25 civil service salaries and monetary policy to control the devaluation of the riyal, and guaranteeing food imports. Collapse of state system means dependence on private traders who need significant profits to justify risks, etc, focusing wealth into the few hands of those in power- Houthis and in the south, different generals. Violence and instability increases as household purchasing power is destroyed and prices on imported goods increase dramatically. Starvation in many districts sets in leading to displacement towards highland areas and people seek at least a meal through fighting alongside Hadi-Saleh forces. The south begins to disintegrate among Hadi supporters as groups tire of his exiled government and seek political gains. The secession movement grows, alongside Houthi-Saleh forces creating a state-within-a-state, operating through the Supreme Political Council and benefiting economically through high tariffs on goods entering controlled areas.

Political Implications:

The lack of economic assistance and failure of the political process leads the GPC-Houthi alliance to establish a parallel governing structure that will erode chances of future peace. Hadi loyalists will also begin to agitate for their own objectives, seeking support for a federalist state.

Indicators

- Non-payment of civil sector wages across the country.
- Increasing activity of the Supreme Political Council.
- Increasing activity of southern separatist groups.
- Higher scarcity of food and fuel in markets; increased prices.
- Increasing SAM and famine in some parts of the country, like Hodeidah, Hajja and Taiz.
- Cholera and dengue fever outbreaks in major cities.

Security Implications:

Insecurity caused by warlordism and the necessity of local groups to ensure the security of their communities. This economic and security relationship will remain an incentive for young men who need a source of income; and will provide cover for the growing influence of AQAP and IS. Incursions deeper into Saudi territory and along the Bab al-Mandeb will be followed by a strong military response that avoids disproportionate violence.

- Criminality increases in the south and north, with the black market site of economic activity.

Humanitarian Consequences:

Significant growth of people in need figures particularly across sectors food security and livelihoods, as the local economy and public sector collapse and revert to the shadow economy. Needs will intensify, particularly in Houthi-held areas in the north and along the western coast, which will continue to deteriorate. With air raids, shifting frontlines and bombardment will reduce safe areas, increase displacement and worsen food insecurity in remaining safe areas. With increasing displacement, the risk of cholera would increase, compounded by reduced access to health care. Mortality will rise due to lack of care for chronic conditions, reproduction health, and impact of malnutrition as well as vaccines. Reduced agricultural production caused by lack of inputs. Spikes in fuel prices caused by blockade would increase access to all basic needs, with decrease in movement and trade. Generators in hospitals, access to wash, would decrease. Cholera caused by limited access to wash and high displacement will spread in ITS and collective shelters resulting in high levels of morbidity and mortality. Relief resources will be diverted to health and wash interventions and to stave off starvation in parts of the country, particularly among children under five. Diverted towards paying salaries of health workers and bringing in medical aid. Shelter needs for NFIs etc for a particularly cold winter also needed. Limited amounts of funding will cause targeting in the humanitarian sector that cannot adequately address needs, particularly in the long term. Rural communities suffer the most- rural to urban migration as IDPs which creates greater pressure on resources and heightens risk of cholera and malaria. Wild card: risk of externalized migration out of Yemen to East Africa. WFP scenario suggests that salaries would remain halved across all sectors, with prices at September 2016 levels, which would result in the 40% increase in food insecure population and intensification of hunger among those already food insecure, which is expected to double. This would lead to a need to increase food assistance by 42% from May 2016 levels⁹¹.

Deepening Partition, Destruction of the North

The UAE and Saudi Arabia lead a military offensive on Hodeidah and Saada, following airstrikes with ground troops in an effort to bring a capitulating Houthi alliance to the negotiating table and strive for a military victory. Violence intensifies.

In the south, the Hirak movement pushes to have a louder voice through its southern political council. Partition. As predicted, moving the central

Indicators

- A new offensive in the north begins, troops gather at Saudi border.

⁹¹ WFP (November 2016), *Yemen: Emergency Dashboard*

bank to Aden is a prelude to a significant Saudi cash injection for the exiled government. Nevertheless, challenges remain in dispersing the money as politicians battle over whether wages should be limited to Hadi supporters, or be distributed across the country. Saudi airstrikes continue, despite steady pressure by US and UK groups to end the humanitarian catastrophe. In the north, the humanitarian situation is dire, with waves of cholera and malaria leading to the unnecessary death of thousands of civilians, poverty and starvation levels of food insecurity in Houthi-held governorates. The health system collapses due to non-payment of wages. The Houthi-Saleh alliance do not back down. Decreasing humanitarian resources make response capacity very difficult. Houthi-Saleh alliance begins to disintegrate into tribal and economic components causing clashes and limited displacement. Heightened risks of targets on US and international trade in addition to Saudi, creating possibility of a severe response- airstrikes etc. heavy attack in Saudi leads to Saudis taking the decision to begin to deport some Yemenis working in the country. Pressure on UN agencies to move to Aden.

Political Implications:

The lack of economic assistance and failure of the political process leads the GPC-Houthi alliance to establish a parallel governing structure that will erode chances of future peace. Hadi loyalists will also begin to agitate for their own objectives, seeking support for a federalist state.

Security Implications:

The North will remain relatively secure as the Houthis consolidate their control over the black market. Food scarcity will lead to higher recruitment particularly in the north. The risk of attacks inside Saudi Arabia and along the Bab al-Mandeb will increase.

- Saudi Arabia offers loan to the Aden CBY.
- Public sector wages are dispersed, but not in Houthi heartlands.
- Houthis restrict access of aid to Taiz; aid restricted to Houthi areas.
- Offensives against Sanaa.
- Hodeidah port delays; incidents of hunger-related deaths.
- Cholera and dengue outbreaks in cities.
- Houthi attacks on the Saudi border and Bab el-Mandeb increase.

Humanitarian consequences:

The economic and public sector collapse of the north likely combined with a military offensive and territorial advances by government-allied forces into Sunni Houthi-held parts of the country would increase IDP caseloads by between 350,000- one million, particularly in Taiz, Ibb, Dhamar and al-Dhalie. Consequences would be similar to the previous scenario, but caseloads and the intensification of needs would be aggravated in the north, where it could be expected that aerial bombardments intensify, particularly in Sanaa, which is already suffering from an outbreak of cholera. With increased displacement and damaged WASH infrastructure, cholera and acute diarrhea incidences would increase. It is likely that the economic and commercial blockade would remain in place, reducing food, fuel and medicine imports to dire levels and causing increased morbidity and mortality due to preventable illness-related deaths. Humanitarian access would be

reduced, further isolating Houthi areas from assistance and creating severe access issues in surrounding areas due to new frontlines and suspicion of humanitarian actors. Protection issues would increase. Food insecurity would also increase displacement, particularly from rural areas, but also impacting urban areas. This will continue to disproportionately impact women and children, causing protection concerns and increasing conscription among children.

Longer-Term Drivers of Instability and Humanitarian Needs

-**Water scarcity** is a persistent driver of conflict and vulnerability in the Yemen context, and the absence of strategies to stabilize water supply and demand patterns and the deterioration of infrastructure will aggravate these needs in the coming year.

-**Economic reform** that provides jobs for Yemeni citizens, and particularly the largely young population—if not addressed will continue to lead to instability and create incentives to join armed groups.

-Far more immediate political and economic concerns will continue to distract attention away from **the eastern coast of the country**, where al-Qaeda has made deep inroads with the local population and through its support will drive extremism and sectarianism.

-**Fragmentation and divisions across the regions**, even at the governorate level, with resources, tribal, semi-autonomous warring regions.

CONCLUSION

The deepening economic decline may have been worsened by the movement of the Central Bank to Aden, but such a policy decision is only a poorly-planned reaction to endemic and structural factors that have not been addressed, including a lack of reserves and government income. The greater unwillingness of local leaders or their international allies to remedy the economic context before a clear military victory is realized will continue to worsen humanitarian indicators, and particularly food security, potentially to the point of starvation for many Yemenis.

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