

An Economic Roadmap to Humanitarian Relief in Yemen

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Brief Analysis

Washington should accelerate common-sense economic efforts that can help right away, even as the fraught, slow-moving UN peace process continues.

The world's worst humanitarian crisis is worsening. Last year, an estimated 33% of Yemen's population was severely food insecure versus 25.1% in 2017, and the UN-backed ceasefire seemingly removed much of the urgency to resolve this calamity. As the troubled peace process moves forward, the United States should take urgent parallel steps to help millions of Yemenis, from improving household purchasing power to stabilizing the currency and making food more affordable.

WHAT IS ACCELERATING THE CRISIS?

Yemen suffered from poverty, malnutrition, unsafe water, and poor sanitation before the war, but the fighting since 2015 has sharply exacerbated these problems. In 2010, the World Food Programme found that 7.2 million Yemenis (31.5%) were food insecure, including 2.65 million (11.8%) severely food insecure. By the end of 2018, the UN Food and Agriculture Organization estimated that 20.1 million (69.5%) were food insecure, 9.8 million (33%) severely so—more than triple the 2010 number.

Implementing a durable ceasefire while ending UN and coalition maritime inspections is often viewed as the only means of ending the humanitarian crisis, but the reality is more complicated. Today, the UN Verification and Inspection Mechanism for Yemen takes an average of twelve hours to clear an incoming ship, while the Saudi-led coalition adds four more hours to the process with their checks—not the sorts of massive delays that would deter

importers or cause a major spike in food insecurity by themselves. Even if the Red Sea ports of Hodeida and al-Salif returned to their optimal prewar import levels, the crisis would still be stoked by the following problems:

- **Currency collapse.** In 2015, one U.S. dollar was worth 215 Yemeni riyals, but that figure had risen to 569 as of February 2019, greatly increasing the cost of essential commodities.
- **Nonpayment of salaries.** When the war began, Yemen employed more than 1.2 million civil and military workers who directly supported around six million dependents. Since October 2015, the bifurcation of government- and Houthi-controlled branches of the Central Bank has meant a breakdown of banking functions in Sana. Almost no payments have been made to employees inside rebel-held areas (normally totaling about \$2.1 billion per year), and only partial payments have been made in government-held areas (normally \$1.6 billion per year). Even if payment mechanisms were repaired, the government brings in just \$1.6 billion per year, versus an annual payroll and social security bill of around \$3.7 billion.
- **Rising cost of humanitarian goods.** Yemen is 90% dependent on imported food and fuels, almost exclusively through private-sector traders. Since the war began, the IMF assesses that food prices have doubled, gasoline prices have tripled, and the cost of cooking gas has increased fivefold. Casual observers focus on reduced imports to Houthi areas as the main cause, and it is true that commercial food importers view embattled ports such as Hodeida and al-Salif as high-risk trading channels. Yet the population's inability to pay for food is an equally important deterrent. Moreover, both the internationally recognized government of President Abdu Rabu Mansour Hadi and the Houthis fund their war efforts by imposing additional taxes on imported humanitarian goods, and neither side operates their ports efficiently enough.

AN ECONOMIC ROADMAP

The most efficient solution is to improve household purchasing power, but doing so requires a greater market supply of basic commodities, lower commodity prices, a stable currency, and improved incomes. Toward that end, policymakers should consider the following actionable steps:

- **Dollarize Yemen's economy.** By doing so, the Central Bank would turn the U.S. dollar and Saudi riyal into legal, interchangeable currencies in Yemen. Meanwhile, the bank should closely partner with the IMF to complete its diagnostic assessment and bring the country fully back into the international banking system. It should also institutionalize and expand the use of electronic payments and/or checks to reduce corruption and allow financial flows via correspondent banking relationships.
- **Ramp up energy exports.** The government will not be able to pay salaries until it can increase revenue. Of the \$1.6 billion it brought in last year, only \$765 million came from oil sales—a far cry from the \$1.67 billion seen in 2014. Although oil prices were much higher at the time, there is ample room for further revenue generation in Yemen's hydrocarbon sector. Small gestures of U.S. government support—such as financing for pipeline development via the Export-Import Bank of the United States or the Overseas Private Investment Corporation—could greatly increase Yemeni government revenues, which are processed through a Federal Reserve Bank of New York account with international oversight. Likewise, Yemen's liquefied natural gas project was bringing in \$300 million per year as recently as 2013, and French operator Total could quickly restart exports with existing infrastructure and security guarantees for the LNG plant and its offshore terminal. Specifically, Emirati missile defense protection and U.S./UAE naval escorts for tankers would likely convince Total to resume work, promptly adding 19% to government revenues.
- **Restore salary payments.** The UN should help regularize salary payments to teachers, sanitation workers, and healthcare providers throughout Yemen, which are only partially covered by the Hadi government and international donors at present. The recent \$70 million UN Children's Fund donation from Saudi Arabia and the UAE was a step in the right direction, but ameliorating the crisis will require salary payments to be made monthly. Once the Hadi

government sets aside oil revenue for these payments, all parties should help ensure that working families in all areas of the country are paid regularly with full transparency, using capable financial technologies and a verifiable salary roll backed by a national biometric scheme.

- **Facilitate trade.** The Hadi government and international partners should accelerate the nascent trade facilitation platform for private-sector traders, who provide all but 5% of Yemen's imported basic commodities. To that end, the country's Finance Ministry and commercial banking sector should be pressured to establish letters of credit for a broad range of traders in Houthi- and government-held areas, allowing them to import basic commodities and medicines while drawing down more aggressively on Riyadh's \$2 billion loan of March 2018. Additionally, the Saudis should help the Hadi government open export corridors to the north, and Yemen should amend its Decree 75 to equalize treatment of Houthi and government import hubs and remove delays on fuel imports.
- **Maximize access points.** Yemen and its neighbors should open all ports and land/air crossings as expansively and efficiently as practicable. A crisis as complex as this one cannot be resolved through one major access point (currently Hodeida port). All taxes, customs, and financial barriers on basic commodity imports should be eliminated as well.

IMPLICATIONS FOR U.S. POLICY

The United States has strong incentives for mitigating Yemen's humanitarian disaster, which is not only an affront to U.S. values and global leadership, but also a threat to U.S. interests. The crisis is gravely damaging Saudi and Emirati relations with the U.S. Congress, while Iran is strengthening its foothold in the area and al-Qaeda in the Arabian Peninsula is developing new safe havens in deprived communities. Supporting the UN-led peace process and de-escalation efforts at the Red Sea ports remains vital to these interests, but taking economic actions that benefit the Yemeni people directly is at least as important.

The first step is to strengthen the U.S. team dealing with Yemen. The crisis provides an opportunity for the Trump administration to establish a twenty-first-century structure for complex foreign policy challenges in nonpermissive environments. Right now the single point of failure rests on a very small group of foreign service officers with no disaster response team, no U.S. Agency for International Development mission, insufficient public diplomacy, and an inadequate assortment of junior political and economic officers.

Accordingly, the administration should move diplomats, development experts, and humanitarian response teams from Washington, Frankfurt, and Budapest to Riyadh, Abu Dhabi, Amman, and Djibouti, with satellite offices in Aden or al-Mukalla. Neither the current nor the previous administration placed enough people on the ground at sufficiently senior levels to properly engage with key interlocutors, thus crippling Washington's understanding of the complex dynamics behind this multi-actor war. As a result, the United States is not driving ideas or solutions to the parties.

Finally, apart from rehabilitating the international community's fixation on Hodeida and al-Salif, reducing the centrality of these ports as humanitarian corridors could also make them less valuable to the Houthis, perhaps making the rebels less resistant to trading local control for a broader peace deal. This and other relatively small policy fixes could change the lives of millions and begin restoring some sense of hope to the country.

Dave Harden is managing director of the Georgetown Strategy Group and former assistant administrator at USAID's Bureau for Democracy, Conflict, and Humanitarian Assistance, where he oversaw U.S. aid to Yemen before retiring in April 2018. Michael Knights, a senior fellow with The Washington Institute, visited Yemen four times last year to observe conditions on the ground. ❖

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