

# In Damning Report, UN Panel Details War Economy in Yemen

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## ABOUT THE AUTHORS



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Brief Analysis

**By benefiting from questionable wartime revenue streams and outright corruption, both the Houthi rebels and the U.S.-supported Hadi government are inhibiting a transition to peace.**

The latest UN Panel of Experts report on Yemen raises new red flags about potential threats to near-term conflict resolution and stabilization. In addition to questioning the cohesiveness of government and rebel forces, it anecdotally details the rise of a robust, mafia-like war economy that creates disincentives for peace on both sides. The panel's conclusions include a new, particularly damning assessment of Abdu Rabu Mansour Hadi's government and its local affiliates, while also reiterating extant concerns about the Saudi-led coalition and the Houthi rebels.

## LACK OF COHESIVENESS

Composed of independent experts with specialized knowledge, the panel presents an annual assessment to the UN Security Council on the implementation of sanctions and the arms embargo on Yemen as specified by Security Council Resolutions 2140 (2014) and 2216 (2015). The latest report covers 2018, though given the panel's limited mandate, it does not analyze the ceasefire or other agreements [recently reached in Hodeida province \(https://www.washingtoninstitute.org/policy-analysis/view/protecting-yemens-peace-process-from-houthi-ceasefire-violations\)](https://www.washingtoninstitute.org/policy-analysis/view/protecting-yemens-peace-process-from-houthi-ceasefire-violations).

The nearly 300-page document paints a bleak picture, drawing particular attention to the lack of cohesiveness that makes it difficult for either Hadi or the Houthis to decisively win the war, let alone effectively transition to peace. After all, if the disparate factions that make up either side lost the common enemy that binds them together, they

may well fracture into opposing forces, creating a series of small civil wars across the country.

On one side, the Hadi government is unable to exert authority over the areas it claims to control, its repeated non-payment of salaries has contributed to troop discontent, and it faces intense and often violent opposition by some southern forces. On the other side, Houthi forces are a similarly loose collective linked together more by a set of common adversaries than common interests. The panel suggests there are “signs” that the Houthis are becoming less politically inclusive in their leadership ranks—a fact that likely exacerbates the broader lack of cohesion. Indeed, the panel notes that the Houthis are “facing slightly increasing levels of dissent” from major tribes and at the street level. Recruitment has reportedly taken a hit due to a currency crisis that caused food prices to rise, and the practice of offering low pay to hungry, poor, often illiterate young recruits is hardly a recipe for close-knit forces.

## WAR ECONOMY AND CORRUPTION

**C**oupled with the lack of cohesiveness, various destabilizing factors in Yemen have led to the development of a significant war economy. Inevitably, those who benefit from this economy are far less inclined to facilitate a transition to peace, and they could act as spoilers if their interests are threatened. These elements include many important stakeholders in the north and south, some with roles in Houthi or Hadi governing structures.

For example, to finance the war effort, the Houthis rely on rents and fees in Sana that the government used to collect. According to last year’s panel report, this revenue totaled at least 407 billion Yemeni riyals (\$1.6 billion). Moreover, they collect import taxes at Hodeida and al-Salif ports, and at a checkpoint in Dhamar province through which nearly all of the country’s imports pass, even those originating from entry points not under Houthi control.

The panel also notes that the Houthis make significant sums by taxing oil donated by Iran—perhaps tens of millions of dollars per month. The oil is imported through Hodeida with falsified paperwork suggesting an origin in the United Arab Emirates or Oman, though the true origin is Iran. This allows vessels to avert detection by the coalition or UN maritime monitors.

In addition to funding the Houthi war effort, the war economy has created ample opportunities for corruption on both sides of the conflict. The Hadi government and its local affiliates are particularly taken to task in this year’s panel report. The previous two reports used the word “corruption” only once, but this new edition uses it over twenty times—eight times in direct relation to the government, two in relation to the Houthis, and at least nine in relation to both. The panel assesses that corruption is contributing to the humanitarian crisis by artificially raising prices and impeding the import of commercial goods.

The panel is also investigating two other accusations against the Houthis: first, that they are trying to divert humanitarian aid on a large scale to the war effort, as they have recently been suspected of doing in Hodeida; and second, that they are creating an artificial fuel scarcity to drive up prices on the black market, which is allegedly controlled by a cartel close to senior Houthi official Mohammed Ali al-Houthi.

Yet the report’s references to corruption on the government side are even more numerous. The panel mentions no less than five investigations into the Hadi government and its local affiliates, centering on the following allegations:

- “Significant theft and smuggling of crude oil” in Marib province.
- The “diversion of public funds” to the Alessi Group, a fuel transportation company whose owner, Ahmed al-Essi, reportedly advises President Hadi. In addition to this accusation, Alessi allegedly benefits from “opaque tender bidding processes” that give it a de facto monopoly over fuel imports into Aden, according to a November report by the Sanaa Center for Strategic Studies.
- The passage of a new government policy designed to either deliberately “constrain” the Houthi economy or help “business lobbies associated with the government who wanted to increase their share of the import market.”

- The introduction of an import mechanism that gave preference to “a small business circle close to senior [government] officials” and contributed to humanitarian violations.
- Potential corruption in the Yemeni armed forces over food supplies.

## FINDINGS ON HUMANITARIAN AND SECURITY ISSUES

**T**he new report reiterates the panel’s ongoing concerns about violations of international humanitarian law. Like past assessments, it calls out the coalition for violations related to errant airstrikes and allegations of torture in detention, among other issues. It also accuses the Houthis of indiscriminate shelling, attacks on humanitarian convoys, use of **landmines (<https://www.washingtoninstitute.org/policy-analysis/view/the-problem-of-landmine-proliferation-in-yemen>)**, torture in detention, and other violations.

The bleak report does offer two thin silver linings. First, it implies that the Houthi supply route for ballistic missiles from Iran may have been disrupted. The rebels have not fired a ballistic missile toward Riyadh since June 2018, halting a pattern that had seen about one launch per month. The panel is “monitoring whether the recent deployment of Saudi forces to al-Mahra governorate has affected the supply chains” from Iran.

At the same time, however, the panel notes that the Houthis are less reliant on Iran supplying whole weapons systems, suggesting that they are now assembling some systems locally and looking abroad only when they need “high-value components.” Many of these components (e.g., drone guidance systems and engines) have commercial purposes, allowing the Houthis to avoid coalition interdiction when importing them. Worryingly, the panel suggests that the rebels now have enhanced drone capabilities. Some of their drones can reach targets up to 932 miles away, putting Dubai, Abu Dhabi, and Riyadh just in range. They can also equip certain variants with fragmentation munitions, as seen in the recent deadly attack on al-Anad Air Base. Thus, while their apparent inability to acquire missiles is beneficial in the short run, a turn to self-sufficiency may pose risks in the long run.

The second thin silver lining is that the threat from al-Qaeda in the Arabian Peninsula and the Islamic State diminished in 2018. According to the panel’s cursory look at the issue, many of the fighters who were a part of AQAP’s ranks are now involved in criminal activity for hire, and the Islamic State conducted few substantial attacks in Yemen in 2018. Longtime AQAP watchers are unlikely to breathe a sigh of relief, however, given the group’s knack for lying dormant only to rise again. AQAP retains a large war chest, which would go a long way to replenishing its ranks when the war economy subsides.

## CONCLUSION

**B**ecause the panel’s assessments provide a bird’s eye view of what U.S. friends and foes are doing in Yemen, they can serve as an annual report card for policymakers to help calibrate the U.S. approach going forward. This year’s report reinforces past red flags about coalition violations while raising new ones about the Hadi government’s conduct. Washington should hold the government and its partners to the highest standard as the legal representative of the Yemeni people on the international stage. It should also press Oman and other allies who have the Houthis’ ear to condemn violations on the rebel side.

Specifically, per the panel’s recommendations, the United States should consider providing assistance in coordination with the UAE and Oman to enhance the capabilities of UN monitors in detecting false import documentation. Washington should also provide training to the Yemeni government on proper due diligence mechanisms for imports. And it should press the Saudi-led coalition to be more responsive to panel requests, especially as investigators work to uncover issues related to supply chains and chain of custody. Most immediately, Washington should support the panel’s renewal for another year when it comes due in late February, with adequate funding to boot.

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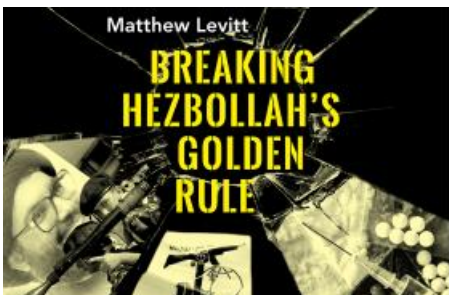
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